Executive reader research surveys business press

THE results of a research study examining the readership patterns of senior executives in New Zealand has just been published. The study, a follow-up of a pioneering survey conducted in 1976, was sponsored by *National Business Review* and conducted by the Heylen Research Centre.

During the last five years *National Business Review* has commissioned the Heylen Research Centre to conduct five full-scale research studies in the business press field.

NBR's marketing director, Ian F Grant, explains that the motivation for the continuing research programme has been twofold.

"We felt back in 1975, that the almost complete lack of meaningful research in this area was a poor reflection on the business press. We also felt that McNair surveys, while deservedly respected for their mass media results, did not survey sufficient people in executive and professional categories for results to be reliable."

Ian Grant believes the reasons for *NBR* commissioned research remain as relevant in 1980 as they were in 1975 when the first survey was conducted.

The NZ Senior Management: Profile and Readership Patterns survey was conducted in late 1979-early 1980.

Senior executive respondents were asked a series of questions probing:

1. The extent to which business magazines and some general magazines that are currently available are read and the duration of their readership.
2. The image of these magazines in terms of the levels of information they provide, and their objectivity.
3. The extent to which television is viewed and the nature of the programmes most frequently watched.

Thirteen publications were surveyed. They ranged from specialist professional publications, through general business magazines to the leading general interest publications.

National Business Review was most widely read by the total senior management sample (65.3 per cent) with the *NZ Listener* (56.3 per cent) and *Time* (48.7 per cent) the next mostly widely read publications.

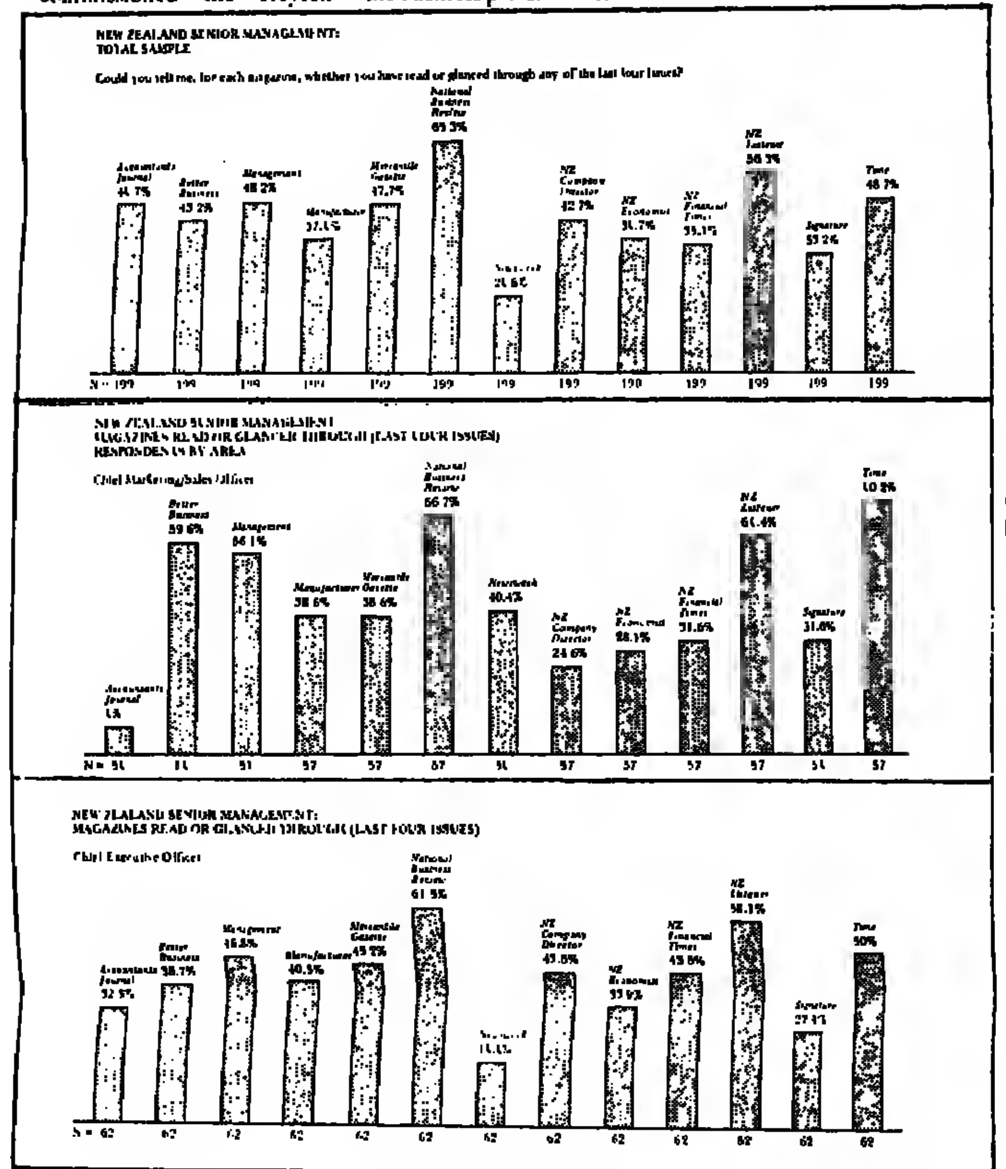
Respondents were drawn from three management groups — chief executive officers, chief financial officers and chief marketing/sales officers — and quite distinct reading pattern differences emerged.

The publications most widely read by chief executive officers were *National Business Review* (61.3 per cent), *NZ Listener* (58.1 per cent) and *Time* (51 per cent). Among chief financial officers, 88.8 per cent read the *Accountants Journal*, 67.5 per cent read *National Business Review* and 56.3 per cent read the *Mercantile Gazette*. Among chief marketing/sales officers 70.2 per cent read *Time*, 60.7 per cent read *National Business Review* and 61.4 per cent read the *NZ Listener*.

Survey respondents were also asked to indicate, on a five-point scale, how informative and objective the publications they were about the New Zealand business scene.

Informative/Very informative scores for the business publications surveyed were: *Accountants Journal* (10.5 per cent), *Business* (25.6 per cent), *Management* (28.2 per cent), *Manufacturer* (41.4 per cent), *Mercantile Gazette* (... per cent), *National Business Review* (70.7 per cent), *Company Director* (... per cent), *NZ Economist* (... per cent), *NZ Financial* ... (35.2 per cent).

Objective/Very objective scores were: *Accountants Journal* (57.9 per cent), *Business* (32.6 per cent), *Management* (36.5 per cent), *Manufacturer* (42.6 per cent), *Mercantile Gazette* (... per cent), *National Business Review* (56.9 per cent), *Company Director* (... per cent), *NZ Economist* (... per cent), *NZ Financial* ... (40.9 per cent).



Sample frame draws on major firms

INTERVIEWS for the *NZ Senior Management: Profile Reader ship Patterns* survey were conducted by telephone from the centres of Auckland/Hamilton, Wellington, Christchurch and Dunedin/Invercargill. All interviews were conducted by fully trained Heylen Research Centre interviewers using a structured questionnaire. Respondents were not told the name of the sponsor.

The sampling frame used for this survey was made up of the following components:

• The largest New Zealand companies listed on the Stock Exchange:

• Major financial institutions such as trading banks, merchant banks, and insurance companies:

• The largest overseas companies trading in New Zealand, but not listed on the New Zealand Stock Exchange. For example, major oil companies and motor manufacturing companies:

• Private companies of significant size trading in New Zealand.

From this universe a sample was systematically drawn, selecting every second company on the list.

From each of the 133 selected organisations it was planned to interview three respondents whose positions could be typified by the following descriptive titles:

• Chief Executive Officer
• Chief Financial Officer
• Chief Marketing/Sales Officer.

The theoretical sample size was therefore 399 respondents. Where a respondent was busy or not available at the time of initial contact, an attempt was made to make an appointment time for the interviewer to ring back. No more than three such attempts were made.

Interviews were successfully conducted by 52 per cent of the total sample; 9 per cent refused interviews; 39 per cent of potential respondents were not available.

A sample of N=... respondents completed interviews. The data in these ... therefore based on ... per cent of the theoretical sampling frame. Thirty ... per cent of respondents were chief executive officers; 40 per cent chief financial officers; ... per cent chief marketing officers.

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NEW ZEALAND'S NATIONAL WEEKLY OF BUSINESS, POLITICS AND ECONOMICS

NATIONAL BUSINESS REVIEW

Incorporating Admark

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Mosgiel receivership breaks ice on textile rationalisation

Christchurch Correspondent

WHEN ailing Dunedin-based woollen textiles manufacturer Mosgiel Ltd sought solace in receivership last week, it did more than send shivers running through South Island industry.

It should also break the ice on talks for widespread industry rationalisation, stalled since rival Otago manufacturer Alliance Textiles cold-shouldered Mosgiel last month.

Mosgiel and Alliance asked the Development Finance Corporation in separate approaches in late February to assess prospects for rationalisation on an industry basis, but the DFC opted to study a merger between the two rivals rather than attempt to master-mind a plan for the entire woollen industry.

The DFC is one of the first ranking debenture holders under the trust deed affected by the receivership.

The DFC became involved because it participated in the DFC-Wells Fargo floating currency loan of $1.9 million which financed the Mosgiel acquisition of the Alford Forest Mill in Ashburton from Christchurch-based Lane Walker Rudkin. It also financed Alliance carpet yarn spinning capacity at Oamaru, which gave it a link between the two rivals.

The Mosgiel debt has been diminished only by an annual repayment of $300,000 last November and is still sizable with the DFC and Wells Fargo each still owed US $788,000.

Yet neither the DFC nor Broadbank (acting for Wells Fargo) triggered the receivership last week.

Nor did the Bank of New Zealand, which must have become increasingly worried about a debt owed by Mosgiel, believed to be now exceeding the disclosed $2.2 million shown in the June 30 1979 Mosgiel accounts. BNZ sources remained tight-lipped behind "banker's confidentiality".

But Mosgiel revealed that the BNZ's refusal to roll over commercial bills, maturing at the end of April, actually forced them into receivership.

Public debenture-holders are believed to be owed in excess of $1 million.

The receivership was actually sought not by debenture holders but by Mosgiel itself, which requested the National Mutual Nominees NZ Ltd to appoint a receiver for the whole of the undertaking and assets of the company.

As trustees for the debenture holders, National Mutual appointed Tony Anderson and Bill Tompkins of the Dunedin accountancy firm of Lawrence, Anderson and Buddle as receivers.

National Mutual executives will be doubtlessly recalling the old Enzon difficulties. NML had a stake in Enzon, a Levin nylon company, which after a period of uncertainty ended up in the Prestige-Holeproof Group.

The specified preference share dividend due, payable last Wednesday, has been suspended.

The Minister of Trade and Industry Lance Adams-Schneider, said the Government hopes the receivers would "go about their task with the long-term future of both Mosgiel and the woollen milling sector as a vital consideration.

"The Government stands ready to lend its good offices to help devise a reconstruction which would be in the best interests of everyone," he said.

In other words, the Government hopes that the Mosgiel crisis will prompt the overdue rationalisation recommended by the Industries Development Commission.

Mosgiel had enjoyed substantial protection through import licences and tariffs over its history and received regional developmental assistance but had still encountered trading difficulties.

Intense competition on a weakening domestic market were blamed by Mosgiel chairman Peter Fels in his last report, and unable to trade through, the company had slashed prices to uneconomic levels.

Mosgiel managing director Jim Lee, brought into Mosgiel a few years ago with a whiz-kid reputation, is understood to have stopped the flow of red ink in recent weeks and clearly time was on Mosgiel's side.

The woollen industry currently has moved its products, such as hand knitting yarns and garments, into the marketplace and should be showing a seasonal inflow of cash over March-July. By August, it will again face the financial problems of coping with wool purchases, with wool prices a factor in the last half year loss.

The DFC will be hoping that the receivers eliminate Mosgiel's problems before the next financial outflow.

They are due for another annual repayment on the DFC-Wells Fargo facility next November 30.

In the interim *NBR* would not be surprised to see Alliance resume its wooing of Mosgiel. Last time the dowry was too great with $1.5 million losses, but any "merger" would now presumably be very much on Alliance's terms.

The Alliance board met last Wednesday and may have dusted off its master plan for the industry. There will possibly be more than academic interest in other textile companies.

The Government has been encouraging the industry to get a national plan to cope with the removal of traditional protection, and only Bing Harris is known to have rejected previous discussion of wide-ranging changes in one of the nation's oldest industries.

NBR Outlook

THIS week, National Business Review subscribers will be mailed a copy of our latest *NBR Outlook*.

The last *NBR Outlook* examined various aspects of New Zealand life in the 1970s. The new *NBR Outlook* will consider many of these same subjects projecting ahead to the end of the decade.

The 88-page tabloid will also be available at selected bookshops and newsagents.

Dairy Board sees juicier pasture

by Warren Berryman

THE Dairy Board appears to be poised to take over a major slice of the fruit drink market using its Tetra Pack cardboard cartoning machines at New Zealand Co-operative Dairy's plant at Takanini.

But Dairy Board executives are remaining tight-lipped about their plans.

The Dairy Board stole a march on rival carton interest, UEB Industries, while UEB's Pure Pac cartons were stalled first by various Government departments and then by a Government caucus committee.

Government denied UEB an import licence to bring in Pure Pac cartoning machines, but gave the Dairy Board a licence to import a Tetra Pack machine on the grounds that the Dairy Board's UHT milk would be exported.

Now it appears this quasi-Government department is out to dominate the fruit drink market as well as flooding the domestic market with Zapp flavoured milk.

The Dairy Board has negotiated with the Apple and Pear Board, which makes Fresh-Up apple juice.

The board has also had talks with overseas fruit drink interests.

Dairy Board marketing manager Bruce McKinnon said there had been some talks about getting into fruit drinks. He would not elaborate.

Informed sources claim rolls of Tetra Pack carton paper have arrived bearing the label of Prime orange juice. This product might go on the market within a matter of weeks.

Prima is sold in Australia by Lifesavers Australia Ltd in Tetra Pack cartons for 27 cents for a 250 ml carton.

McKinnon would neither confirm nor deny the existence of the Prima carton paper. Nor would he confirm or deny that talks had gone on between the board and the Australian interests.

He suggested that some paper might have been brought in for "trials".

Wool Board upheld

THE Wool Board's exclusive contract with the New Zealand-European Shipping Association was upheld in the High Court, which ruled against the Belgium-based ABC Container Lines. ABC had sought the right to provide shipping services for the board through a court review of the board's exclusive arrangement.

BANK credit cards will not come under the strict scrutiny of the Commerce Act, although the Government had earlier decided it would enforce a Commerce Commission recommendation to that effect.

THE joint application by the FOL and the Combined State Unions for an immediate general wage increase was rejected by the Cabinet which found that the need for an increase was not substantiated by statistics.

SHELL Oil (New Zealand) Ltd is still trying to find a site for a liquid petroleum gas depot. It has been negotiating with the Auckland Regional Authority on possible sites, but still hopes to secure an Onehunga site which was not leased to it last month.

MATIU Rata formally handed in his resignation to the Speaker of the House at Parliament, ending his service as an MP. The by-election for his Northern Maori seat will be held on June 7.

FLETCHER Holdings was granted an adjournment for the Commerce Commission hearing on the Carter Holt Fletcher takeover bid.

MORE than 600 mourners attended the funeral for Onehunga MP Frank Rogers.

THE position vacated by New Zealand Ambassador to Iran Charles Beehy when he left Teheran at the end of his term last week will not to be filled in the meantime.

A DOUBLING of personal tax exemptions for life insurance premiums and superannuation contributions is sought in proposals put to the Government for this year's Budget by the Life Offices Association to encourage people to invest in long-term savings.

PAN Am is to face a United States Government inquiry into its methods of operating and maintaining 747 jumbo jets following a complaint from a senior pilot who alleged fuel shortages in planes and maintenance defects which have led to engine shut-downs.

THE Airline Pilots' Association threatened to stop using flight recorders if lawyers are allowed access to the information in the equipment of the Air New Zealand DC-10 which crashed in the Antarctic last year.

THE number of people voting in the next general election will be fewer by more than 260,000 people making the number voting 2.2. million. In an effort to update the country's 92 electoral rolls, the Justice Department has deleted nearly 360,000 names because of duplication, deaths of electors, and address changes: it made 117,000 corrections to entries and added 92,927 qualified voters to the rolls.

PAMELA Jeffries was appointed to the Planning Council for a four-year term.

DAVID Lawson was appointed First Secretary (Information) at the New Zealand High Commission in London.

AMERICAN hostages in Iran were transferred by their student captors from the American Embassy in Teheran to different locations in Iran after the abortive American rescue attempt which ended in the deaths of eight crewmen. Secretary of State Cyrus Vance resigned in disapproval at President Carter's decision. Senator Edmund Muskie is his successor.

HIGH Commissioner for Singapore Harry Chan urged New Zealand to allow more Asian exports into the country as a means of lowering the inflation rate.

THE total number of people leaving New Zealand dropped to 22,292 for the year to March 31 1980, compared with 26,906 people for that period last year.

Exchange Rates

As at May 1 1980, $NZ is worth:

Australia	.8655
Britain	.4251
Canada	1.1432
Fiji	.7978
Japan	229.52
West Germany	1.7220
United States	.9608
Austria	12.21
Belgium	27.75
China	1.4398
Denmark	5.3903
France	4.0165
Greece	40.40
Hong Kong	4.6971
India	7.6020
Italy	809.85
Malaysia	2.1255
Netherlands	1.9032
New Caledonia	
Tahiti	72.65
Norway	4.6925
Pakistan	9.4096
Papua-New Guinea	on app
Portugal	47.22
Singapore	2.0940
South Africa	[illegible]
Spain	[illegible]
Sri Lanka	[illegible]
Sweden	[illegible]
Switzerland	[illegible]
Western Samoa	[illegible]

The week ahead

Monday: FOL conference.

Tuesday: Singapore's Deputy Foreign Minister arrives for three-day official visit.

Visiting United States trade representative Reubin O'D Askew meets the Prime Minister Robert Muldoon and Foreign Affairs Minister Brian Talboys, for talks on American/New Zealand trade.

Wednesday: Tolley Holdings Ltd's annual general meeting in Wellington.

Friday: Manufacturers trade fair in Wellington until May 18.

New Zealand private schools conference in Dunedin.

The business week

AMPOL EXPLORATION LTD reported an unaudited tax-paid profit of A$5,395,000 for the six months to March 31, (A$3,727,000 last year). An interim dividend of 5c is payable on May 30.

ASHBY BERG AND CO LTD has reported an unaudited tax-paid profit of $117,300 for the six months to January 31, (not a loss, as we incorrectly reported in our April 21 issue).

LION BREWERIES LTD appointed George Pearce to the board and E V Jarvis as secretary.

MIM HOLDINGS LTD reported unaudited net earnings of $172,784,000 for the first 40 weeks of 1979/80 ($66,202,000 in the period last year).

JOSEPH NATHAN CO LTD reported an unaudited tax-paid profit of $49,280 for the six months to February 29 ($42,429 last year). An unchanged interim dividend of 4 per cent is payable on May 23.

THE NATIONAL INSURANCE COMPANY OF NEW ZEALAND LTD reported an unaudited tax-paid profit of $1,790.00 for the six months to February 29 ($2,160,000 last year). An interim dividend for the year to August 31 of 5½c per 50c share is payable on May 19.

PHILLIPS AND IMPEY LTD reported an unaudited tax-paid profit of $526,000 for the six months to February ($491,000 last year). An interim dividend of 7½ per cent is payable on June 3.

SANFORD LIMITED reported an unaudited net profit of $517,000. Interim dividends of 8 per cent for both ordinary and preference shares are payable on May 31.

TELETHERM INDUSTRIES LTD reported a final dividend on specified preference shares of 6 per cent payable on May 31.

WATTIE INDUSTRIES LTD appointed J O Haworth as managing director.

Labour finds ad agency

THE LABOUR PARTY has a new advertising agency.

Squires Advertising Ltd (formerly Supermarket Advertising) got the job of running the ad campaign for the Northern Maori bi-election and organising the razz matazz at the Labour Party conference in Wellington Town Hall on May 14-16.

If Squires performs, it will be given the party account for the 1981 election.

Squires Advertising is owned 55 per cent by retail advertising expert Rod Squires and 45 per cent by Macharman's Advertising.

Macharmans carried the Labour Party to victory in 1972, but dropped the account after the 1975 campaign.

Macharmans director Bob Harvey, has been advising Labour Party president Jim Anderton on the choice of an ad agency.

First choice, Auckland ad agency Monahan Dayman Adams and Partners, fizzed out.

MDA expressed interest in the Labour Party account after prompting from Harvey. Anderton met with MDA's directors, outlined the party strategy, and MDA went to work on a campaign.

But late one night Anderton got a letter from MDA saying it would have to drop the account because other clients did not wish it to take on a political account.

Anderton went to the press claiming Muldoon had shown he wanted to control and dominate the media in New Zealand and now big business was using its financial muscle to rob the Labour Party of the professional assistance it desires.

Anderton said major MDA clients threatened to withdraw their accounts if the agency did not drop the Labour Party.

MDA directors said the pressure from clients was not to take on any political party.

Squires said his first tasks were to revamp the party image for the 1980s, dress up the Wellington Town Hall for the conference, and modernise the party logo.

The new look for the party will be youth, clean, modern, and unity — above all unity, not workers versus academics, as in the past.

Squires will devote 25 per cent of his agency's capacity to the job — six people assisted by a public relations man from Bill Rowling's office.

Pure Pac pitching in with UEB for licence

by Warren Berryman

A FURTHER bid to bring Pure Pac cardboard cartons to New Zealand will be made this week with yet another application for an import licence for a filling machine.

This time it won't come from UEB Industries, Pure Pac's agents up to April 1, but from a new company, Pure Pac New Zealand Ltd, a joint venture between UEB and Pure Pac Australia Pty Ltd. The Australian company holds 70 per cent of the shares.

The import licence application will be brought on behalf of a fruit juice company.

Stalled for six years by various Government departments and for the past year by deliberations of the Government caucus committee on the town milk industry, Pure Pac is back to square one, while the Dairy Board has stolen a march and introduced its own Tetra Pack cartons.

UEB Industries is far from happy, having lost its innovative edge to a quasi-Governmental agency, thanks only to Government procrastination.

Apart from money spent on research and development, UEB would probably have gone through at least $200,000 in the long lobbying process aimed at obtaining a licence for the Pure Pac machines.

Pure Pac New Zealand manager Andy Curracan said: "It is not our intention to compete on the white milk market. We reserve the right to offer our system for the end user, particularly if other systems are allowed. We see this system competing successfully against tin cans and plastic bottles".

Curracan said he saw the major market battle moving now into the fruit juice area.

Pure Pac's major advantage over the Dairy Board's Tetra Pack cartons is that one Pure Pac filling machine can form and fill carton sizes ranging from 250 ml to 2 litres while a different Tetra Pac machine is required for each size.

The major advantage of Tetra Pack lies in the UHT heat treatment of the product packed in laminated foil cartons providing long unrefrigerated shelf life to milk or fruit juices.

Before the caucus committee stalled Pure Pac, Oasis Industries was right behind the project, seeing the cartons as an ideal way of packaging fruit juices for export and the home market. Oasis has a joint venture with the Cook Island Government and growers to process island oranges, pineapples, lemons and grapefruit.

Oasis is looking for alternatives. And now it is a toss-up between Pure Pac and Tetra Pac.

A key point in the initial Pure Pac proposal was the possibility of New Zealand Forest Products making the specialised carton board, for local use and export (Tetra Pack carton board cannot be made here). It was estimated that NZFP could export 20,000 tonnes a year, worth $20 million, to Pure Pac Australia.

A trial run of 50 tonnes of the board through Kinleith was sent off to Australia, which asked for a 1000 tonne shipment.

But the Kinleith strike held up that order. Now NZFP is reassessing the economics of producing the board.

Curracon said his company's intention was to import the carton board from Australia for the first two years until NZFP started production.

A 250 ml Pure Pac carton cost 4.1c versus 8c for a plastic bottle and 11c for a can, he said.

But AHI has not been sitting back while UEB and Pure Pac were stalled by Government.

Acting as unofficial agents for Tetra Pack, AHI has been touring potential customers with overseas Tetra Pack experts.

AHI has a monopoly on glass bottles, makes most of our tin cans, and competes with UEB in packaging and containers. Now a marketing battle is shaping up between AHI and Pure Pac and the Dairy Board for the carton market.

AHI has already shown itself the clear winner in the lobbying stakes. It has been there — not in the marketplace — that the battle of the cartons has been fought.

Milk control to industry

by Belinda Gillespie

THE Government intends to rid itself of the town milk supply and turn control over to the industry.

The report from the caucus committee on the town milk industry recommends the restructuring of the Milk Board, at present heavily weighted with Government and local body representatives.

The new board will be industry-controlled, but it will retain some consumer representation, and include, for the first time, a representative from the Dairy Board.

The milk pricing authority will be abolished, and its functions turned over to the Department of Trade and Industry.

Price control will remain. Retail margins will be set by the Secretary for Trade and Industry, not the Minister of Agriculture as before.

The committee has taken a cautious line on the contentious issues of seven-day home delivery and the continued use of bottle. Both are to continue unchanged.

Geoff Thompson, MP for Horowhenua, which has the largest concentratrion of town milk supply farmers of any electorate, was active on the committee, with Rob Talbot, under-secretary for agriculture, and Don McKinnon, MP for Albany.

While admitting that no dramatic changes would result from the recommendations, Thompson said they showed the Government's desire to relinquish control and change its paternalistic, protective attitude to consumers and milk-drinking.

The decline in milk consumption and the committee's activities have focussed the industry — producers, treatment stations and vendors — which are now ready to co-operate in the production of ancillary milk products, and a more market-oriented approach to milk-selling.

UHT-flavoured milk production will be extended, if the committee's recommendations are followed. Collaboration in this venture between the town milk industry and the Dairy Board is suggested as "a positive step" in bridging the gap between the two sectors. Plants near Wellington and in the South Island were possibilities, Thompson said.

The committee had sat on the fence regarding the use of cartons for flavoured fresh milk and other products. While endorsing the continuation of bottles for fresh milk, it "believes any decision on the introduction of cartons in the milk market should be measured against any risks they may create to the present bottling system."

The door had been opened to cartoned fresh milk "in a limited way," Thompson said, but the big decisions regarding the granting of import licences for materials and plant would be handled by the Department of Trade and Industry.

Carpet men fear favouritism in Boeing offset deal

by Warren Berryman

EXECUTIVES from three carpet-manufacturing companies expressed concern last week that they would be excluded from the $400 million offset purchase deal to buy Boeing jets.

One of the four major carpet manufacturers — UEB — has been approached by Air New Zealand regarding export prospects.

Feltex, Stevens Bremner and Cavalier Carpets appear to have received no similar approaches.

Similar deals with other governments suggest some $100 million of exports may be involved in the offset purchase.

Boeing Aircraft Corporation will send a team here this week to review the country's export potential and investigate which exporters might be included in the purchase deal negotiated by Air New Zealand when it bought six Boeing jets.

Boeing was asked during the negotiations to offset the purchase price by arranging markets for New Zealand exports.

But who decides which companies will win a Government-financed foray into the American market and reap the export incentives?

Not the airline, said Air New Zealand chief executive Morrie Davis.

Davis said he envisaged some sort of agency being set up after Boeing had completed its export potential review.

And the sort of goods suitable for export? "Whatever we can make best and deliver competitively", Davis said. He mentioned wool carpets — produce of good quality with slack production capacity.

UEB Industries — which makes flameproof, anti-static carpet for Air New Zealand's planes — talked to Air New Zealand four weeks ago and provided samples.

The carpet manufacturers which have been *left* out in the cold are far from happy.

One executive said, "Taxpayers' money financed Air New Zealand's purchase and the offset deal is part and parcel of that.

"Supplying these carpets might not be our cup of tea. But we would at least like to be asked. It should have gone to open tender".

Stevens Bremner managing director Doug Bremner once owned Bremworth Carpets, which first supplied carpets to Air New Zealand. Bremworth is now owned by UEB.

Half owner of Stevens Bremner is Stevens Carpets of the United States, which supplies carpets to Boeing.

Stevens Bremner has the technical capability to make specialised aircraft carpets. But it was not contacted by Air New Zealand.

Stevens Bremner's huge Millitron jet-dying machine can turn out a multitude of designs but the full capacity of this machine has never been utilised.

Doug Bremner claimed his company had recently achieved record sales of $2.5 million worth of carpet in two weeks.

Feltex also has a large capacity.

Cavalier Carpets, while smaller in scale, has been highly successful in its exporting drive.

Morrie Davis said he thought at least two manufacturers had been contacted by Air New Zealand about the offset purchase deal, but he was not sure because he was "not a purveyor of carpets".

Phone calls to senior executives of Cavalier, Feltex and Stevens Bremner by *NBR* could not confirm such a contact.

Davis said: "What we don't want to happen is a situation where somebody takes up a lot of time and can't perform and impairs our relationship with the group. As far as we're concerned that's over to whatever set-up is created."

He said the offset purchase deal with Boeing was not finalised. The contract would probably be signed late this week, he said.

"In the process of our negotiations with the manufacturers (possible suppliers of aircraft and engines), we've emphasised the need for an offset programme for New Zealand-manufactured goods and they responded in certain ways, each of them different. After that we're not going to get in the middle of who gets what and where," Davis said.

The offset deal with Rolls-Royce, which will supply the jet engines, had not been concluded, Davis said (it may have been concluded late last week after *NBR* went to press).

The deal with Exim bank, of the United States, which will finance the Boeing purchase, had not been finalised either, Davis said.

"We are in the process of doing that. The package has been changed slightly with them and we've been in communication with them today (last Wednesday) on details about which I'm not going to tell you."

Davis was not ready to mention the value of exports involved in the offset purchase.

Which political agency will have the responsibility for dishing out the patronage, and what this patronage will buy and for whom, remains uncertain.

Bilateral aviation agreement: Airlines disinterested in spreading wings

Special Correspondent

THERE is more shadow than substance to the New Zealand-United States bilateral agreement on commercial aviation thrashed out in Wellington last week.

The agreement provides for additional destinations for Air New Zealand in the United States, and for American carriers in New Zealand.

Nobody is showing any inclination to take advantage of new destinations. Nor are they likely to in the near future.

Wellington and Christchurch have no special appeal as destinations for the American carriers because the market is not large enough to warrant diverting aircraft from the sweep between North America and Australia that goes through Auckland.

Pan American World Airways said it sees no economic attraction in Christchurch as a destination.

Continental Airlines was wooed by Christchurch when it first came into New Zealand and there were strong early indications that this love was by no means unrequited. But it is understood Continental has no immediate intention of swinging down through Christchurch on its way to Sydney when it takes up its freshly confirmed trans-Tasman rights, probably in September.

Because of operational difficulties, Wellington is even less attractive as a stopping point.

Air New Zealand chief executive Morrie Davis confirmed last week that the airline had no plans to take up rights, granted during the bilateral talks, to pick up passengers at existing or new centres in North America en route to London.

"It's likely to be a year or two before we can even contemplate a new service in that particular geographic area," he said.

Asked if he saw any threat to Air New Zealand in rights granted to Pan Am or Continental during the talks, Davis said: "We don't mind what they've got. We've got a balance out of it that we can exploit as well as they can exploit anything they got on their side."

Davis seemed to be implying that nobody got much they can use anyway.

Will Air New Zealand go to London in the long term? "No, our plans at the moment are to consolidate for the next year or two in the current economic environment and swallowing the introduction of our new aeroplanes. Then we will look at the introduction of routes again, about which I'm not going to tell you," Davis said.

The agreement provides more freedom for either country to use charters to the other, but the charter business was declined in many other countries in recent years because of the availability of advance-payment type promotional fares which can build loadings up on high density routes to the level approaching charter occupancy.

It is difficult to make money out of charters over such long distances as New Zealand to America unless there is a substantial group of back-to-back charters — that is, where one aircraft drops one lot of passengers from the United States and picks up those from an earlier flight down. The two empty ferry legs at the beginning and end of back-to-backs makes even a cluster of two or three uneconomic at current fuel prices.

The provision in the agreement for country-of-origin fare-fixing is likely to have impact on New Zealanders only in the short-term. This means that the New Zealand Government can make its own decision about fares out of this country to North America, and the American Government to make its own decision about fares into New Zealand.

Under current United States deregulation, this means the airlines more or less make them independently. (The fare at the moment is marginally cheaper out of New Zealand to the United States because of currency relationships.)

The pressure in the United States is for higher fares because of fuel price jumps.

The Government here may try to use high fares as a device to curb New Zealanders' enthusiasm for travelling abroad and spending overseas exchange, while allowing lower incoming fares to bring tourists to this country.

How much difference the market would stand is a moot point. Certainly for regular travellers there would be a method of evasion, already used by some New Zealanders who travel a lot to avoid paying the $25 travel tax more than once — buy a one-way ticket to a frequently visited destination, and on arrival buy a return ticket.

That way the passenger is always travelling out of the country on the second leg of a return ticket and never having to buy a ticket here — does not have to pay the $25 at each departure.

Court-jamming tactics

THE Auckland Progressive Retailers Association is mounting a passive resistance campaign to beat the Labour Department and the shop trading legislation by log-jamming the legal system.

The prosecutions against rebel retailers who began defying the Saturday trading laws last Christmas will come before the Auckland Courts today. An estimated 700 prosecutions are pending.

The trading rebels are banding all defendants together for a defended hearing, which could jam the legal system for months if not years.

They are also laying complaints against all shops trading on Saturdays to make sure the Labour Department does not selectively prosecute ringleaders of the rebellion.

The Storeman and Packers Union now threatens a black ban on deliveries to all illegal Saturday traders. The rebels are now looking at the legal possibilities of obtaining an injunction against this union.

Tin conference

CONSUMERS and producers of tin are meeting in Geneva to negotiate a sixth International Tin agreement.

The current tin agreement expires in June 1981, but contains provisions for a 12-month extension.

Editorial

THE "more market" movement within the National Government has suffered a setback with the caucus committee on the town milk industry deciding essentially to stick with the *status quo* and to buckpass a ruling on cartons to Trade and Industry Department bureaucrats. That decision has important business implications for three large enterprises — AHI Glass, (which has a monopoly on multi-trip milk bottles), UEB Industries (which for six years has been trying to introduce Pure Pac cartons for flavoured milk and fruit juices); and the Dairy Board (which is now in a position to step up its domestic marketing activities).

The major proposals in the report dealt only with the Dairy Board and town milk industry and ignored the packaging and marketing aspirations of private companies. The town milk industry had submitted that the Milk Board was an administrative organisation. It was not an industry board (the industry was represented by only four of its members) and "such a structure is regarded as unfair to the industry . . ."

The industry wanted to be served by an integrated industry-controlled statutory authority with responsibility for planning, production, processing, marketing, promotion and distribution of liquid milk . . . "such a board would need to be smaller and not include local authority representation."

The caucus committee endorsed those ideas and recommended a restructured Milk Board with less Government representation, but greater industry representation and a place at the table for the Dairy Board. Effectively, therefore, it would be up to the industry to halt the decline in milk consumption instead of a task for the Government (which is some reduction of State paternalism, at least).

The committee also recommended that the town milk industry needed to be more active in *marketing* and promoting milk products. It wants milk vendors to take a more active marketing role, selling specialised milk products, flavoured milk, yogurt, buttermilk, and so on. The clear implications is that these people have been unenterprising (and deserve to be challenged by competitors).

The report made scant mention of private enterprise food processing and packaging — and no mention of UEB or Pure Pac. It did make several references to the Dairy Board's UHT long-life milk (packaged in Tetra Pack cardboard and foil cartons).

The committee argued against cartons as if they threatened to replace milk bottles. Thus the report drew a causal connection between home delivery and high milk consumption, and accepted arguments that cartons would replace bottles and shop sales would replace home delivery, cutting milk consumption, increasing consumer costs and putting milkmen out of jobs (although UEB insisted it was interested only in flavoured milk and fruit juice, not in fresh milk). *The report* also noted that replacing bottles with cartons would cost $13 million a year.

As committee member *Geoff* Thompson explained, the consumer wants fresh milk in bottles and that desire must be protected (although he recognised there was some application for cartons for new products). The committee was clearly unwilling to let market forces determine what consumers want by voting with their dollars in the market place.

Decisions on importing cartoning machinery are now to be left to Trade and Industry, which was reminded by the committee's report that: "Any decision on the introduction of cartons in the milk market should be measured against any risks they may create to the present bottling system."

But the Dairy Board already has cartons? What about them? Well, the report said: "The committee recognises UHT products [Tetra Pack cartons] have significant value, especially for export, and their production should continue. Further plants are envisaged within the town milk industry with the possibility of export. Carton packaging for UHT milk is endorsed." The report said, too, that the Dairy Board had put proposals to the town milk industry to collaborate in the development of UHT milk products. "Such collaboration with the possibility of a joint venture is seen by the committee as a positive step in bridging the gap between the two industry sectors. The committee is firmly of the belief that such a joint industry venture should be encouraged," the report said.

To further ensure that UHT milk made no inroads into the bottled white milk system, the committee recommended that plain UHT milk should not receive subsidies. And it urged that *vendors should be involved in the distribution of* UHT flavoured milk "and any other specialist products."

Clearly, it believes it knows what the customer should buy and who should sell it.

The "more market" MPs in the National Party no doubt have been enraptured by the passionate arguments of William F Simon, former Secretary of the United States Treasury and an unabashed advocate of a free market. In *A Time for Truth*, Simon insists that the normal market distribution system is so complex, yet so smooth, that no Government mechanism can simulate it. And so the centralised oil allocation plan which he administered in the Nixon Government after the 1973 oil crisis failed essentially "because there had been a ludicrous reliance on a little legion of government lawyers, who drafted their regulations in indecipherable language, and bureaucratic technocrats, who imagined that they could simulate the complex free-market processes by pushing computer buttons. In fact, they couldn't."

Simon is critical of societies which try to mix the free and the totalitarian, the unplanned and the planned, the individualist and the collectivist elements in economic life, where the "intellectual and political leaders share the illusion that a comparative handful of individuals can substitute their judgment for the billions and trillions of decisions that go on in a free market". They cannot see that "when a politically and economically free society starts to contract individual initiative, to contract the freedom of the market, political liberty is on the decline, inventiveness must decay, and wealth [illegible] decrease," he avers.

If that enunciation of free-market doctrine is accepted by National Party MPs, they should look hard at how they are practising what they preach. Civil servants — after a period of shoving between Trade and Industry and Agriculture and Fisheries — have [illegible] refused to grant UEB an import licence for a Pure Pac machine. UEB had to demonstrate to these bureaucrats that milk cartons were in the national interest".

The company stalled its plans [illegible] waiting for the caucus committee's report. It waited for the thrashing out of submissions by environmentalists, the Consumers Institute, AHI Glass and milkmen, the Dairy Board stole a march on UEB and introduced Tetra Pack cartons.

The Dairy Board got its import licence on the grounds that its cartoned milk was [illegible] export. But *once* installed in the Takanini [illegible] the Tetra Pack machines started pouring [illegible] tons of Zapp flavoured milk on to the [illegible] market. Acting as agents for Tetra Pack in New Zealand is AHI — the same group whose bottle monopoly was threatened by UEB cartons. Further, the Dairy Board, as a co-operative, has no taxation worries and can obtain [illegible] rate overdraft facility from the Reserve Bank [illegible] a distinct advantage over any private [illegible].

So while UEB, AHI and all the other [illegible] spending hundreds of dollars in non-[illegible] lobbying, preparation of submissions [illegible] brochures, and rushing to and from Wellington, the Dairy Board has established itself in the marketplace and been given the [illegible] committee's official blessing. William [illegible] view of free enterprise might be single [illegible] extremist — but the Government's [illegible] surely, is a travesty.

— B.S.

Without word of a lie

How to avoid Waterloo

MERV Wellington goes to the top of the class for sticking to his principles.

After getting a hard time on the Victoria University campus last week, he again refused to communicate with Students Association president wotzisname (who has some funny political ideas and shouldn't be named in polite company).

Later, the redoubtable Merv was asked on Radio New Zealand if he didn't think his feud with you-know-who hadn't gone too far.

Not at all, rejoined that worthy gentleman. He pointed out that the unmentionable student had been crass enough to leak a confidential document (the one which told us everything about state funding of universities that clever old Merv was keeping to himself).

Then Merv pronounced: "I have always maintained there should be a proper way of handling the affairs of state" (and leaking confidential papers clearly is not part of it).

Tapping into the Montana story

SPECULATION has been rife in wine-quaffing circles that certain wine-makers would have to dump large quantities of watered wine before the *new* wine regulations take effect in September.

A full-page ad in the *New Zealand Herald* for Blenheimer set tongues wagging that Montana, maker of the notorious "alcoholic beverages" Brother Dominic and Muscato, might have over-run the tap water into the Blenheimer vats.

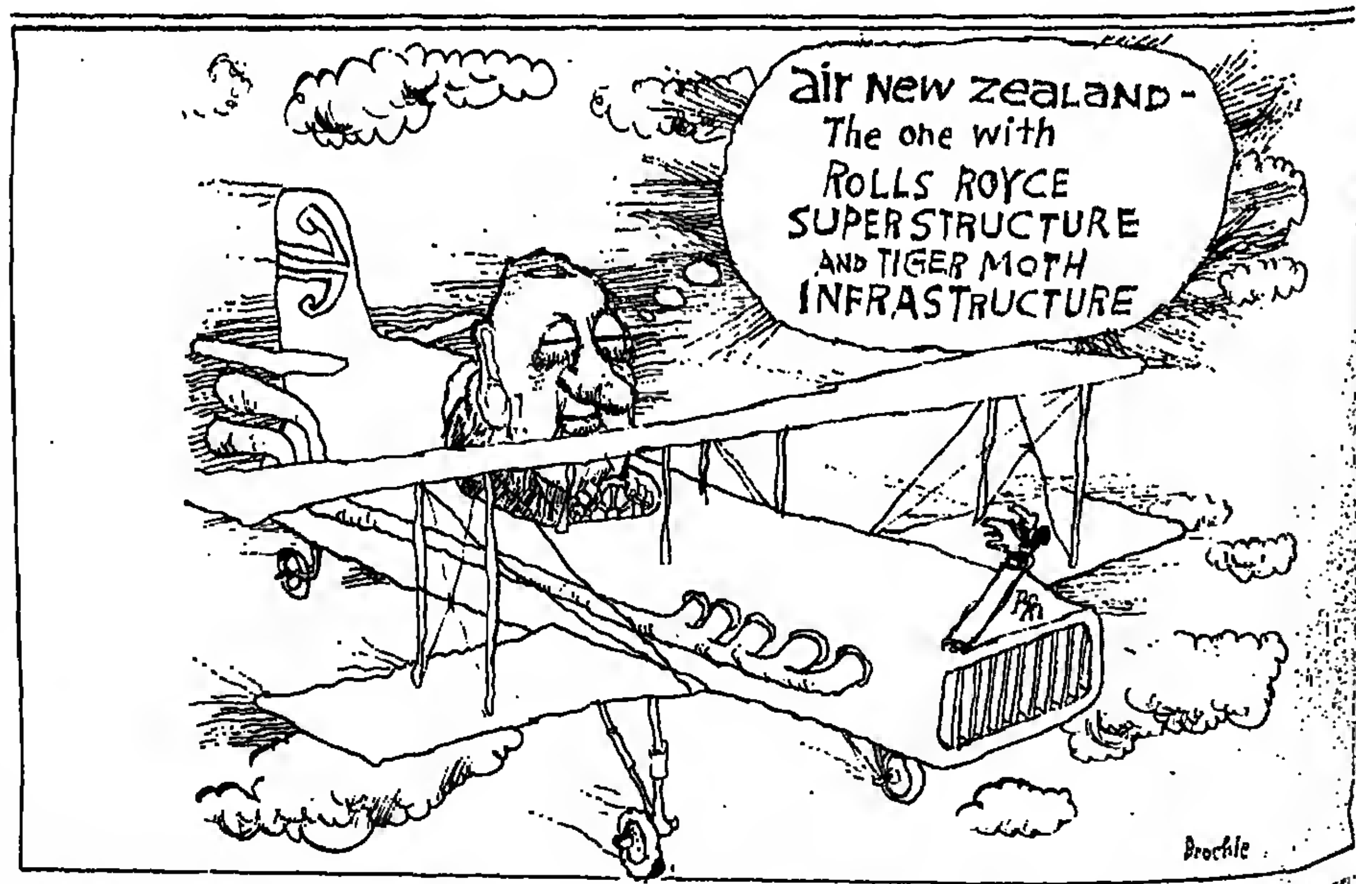
But no. A check with the company revealed the ad to be just part of that company's marketing strategy and not a move to dump watered wine.

Our call solved another mystery: why did Montana, after spending so much money boosting the prestige of its wines, produce Brother Dominic?

Montana chief executive Graham Stormont said Brother Dominic was placed on the market with the full knowledge that it would be controversial in a move to bring the whole water-into-wine matter to a head . . . which it *certainly* did.

Stormont said that as the industry leader, Montana had the biggest supply of grapes so there would be no problems meeting the minimum grape juice requirements.

Brockie's view



But where are Bill's plans?

BILL Rowling in last week's *Truth*, blasted National for cranking up interest rates to record levels "largely because of the Government's own scramble to pay election bribes".

Those who agree with this analysis wouldn't give National sole billing in the election bribery stakes either.

Rowling suggested National, among other things should "present a forward [illegible] the Government's own charges so that [illegible] can plan with confidence." Great stuff [illegible] who want to be rid of arbitrary and [illegible] Governments turning the economy on [illegible] again like a tap.

But where is Labour's forward [illegible] formed sources say Labour has no [illegible] economic policy and doesn't feel it [illegible] bind itself to one because it feels National [illegible] self-destruct and leave them a vacuum.

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Freedom to discount dismissed by retailers

by Warren Berryman

ORDERLY marketing — most sacred of New Zealand's sacred cows — is still very much with us despite last January's enactment of the Commerce Amendment Bill.

Orderly marketing in the brown goods (radios, stereos, TVs) and whiteware (fridges, washing machines, and so on) industries rely on retail price maintenance arrangements between retailer and manufacturer. The manufacturer sends out a list of "recommended" prices. The retailer follows them to the letter — or else.

At least that was the way it was. The Commerce Amendment Bill Number Two, making some minor changes to the principal Act, said manufacturers could, without Government approval, send retailers lists of "suggested prices" so long as it was understood that these were suggestions only and no sanctions would be applied to a retailer deciding to charge a *different* price.

After reading this amendment, one might be excused for thinking a Pandora's box of plagues was about to be released into the retailer's cosy climate — plagues such as competition (usually prefixed with the perjorative "cut-throat"), fly-by-nighters (newcomers) offering consumers discounted prices from reduced margins.

But none of this happened. From North Cape to Bluff uniform prices for whitegoods are maintained. Some bargains exist in brown goods, but this is mostly because manufacturers have *offered* reduced prices for bulk lots of overstocked or out of fashion goods — not because retailers are cutting margins.

Margin-cutting competition among retailers of these goods just did not come about, even though, according to the Commerce Amendment Bill, no one could sanction a retailer for discounting.

Foremost advocate of orderly marketing is Fisher and Paykel. Following the enactment of the new law, Fisher and Paykel sent a letter to its franchise holders, saying it would comply with the letter of the Act, but making it clear it was against disruptive discounting.

"Orderly marketing", the letter said, was in the public interest. Some price conscious consumers might disagree.

Some Fisher and Paykel franchise holders say they have a "gentleman's agreement" not to discount, though they are free to do so.

A well known discounter, the Public Service Investment Society, has tried to obtain a Fisher and Paykel franchise without success.

Fisher and Paykel, despite some public opinion to the contrary, is not a monopoly. It has only about 80 per cent of the whiteware market.

Fisher and Paykel managing director Don Rowlands said he would not grant a franchise to the PSIS because the PSIS sold competing products from other manufacturers. Rowlands said his company was in danger of becoming a monopoly if it sold to the PSIS or allowed massive discounting which might put its competitors out of business.

"It is important our competitors keep going," he said.

Apart from the Examiner of Commercial Practices' jaundiced view of monopolies, there is always the danger that someone might get an import licence to bring in cheaper imports on the grounds that a monopoly exists here.

Rowlands said the Act made no difference to his company's trading. "We and our dealers saw the effects of discounting in the rest of the Western world. Discounters went under and took manufacturers along with them," he said.

"We see a swing back to orderly marketing overseas.

"Discounting often means slow pay which affects the manufacture."

Fisher and Paykel makes a big point of service — and the cost of providing after-sales service.

Retailers provide the service backing up the warrantee. Fisher and Paykel provides the spare parts.

There was no way anyone would be offered a Fisher and Paykel franchise were he of a mind to drop the warrantee and offer a cheaper price in return, Rowlands said. This would mean a loss of his company's reputation which had taken 45 years to build up, he said.

Rowlands said Fisher and Paykel would not be able to enforce sanctions were one of its franchise holders to cut its markups and discount goods.

But, like the PSIS, others have been refused a Fisher and Paykel franchise.

Retailers' markups on whitegoods is between 25 and 30 per cent. Retailers say this is not enough to cover overheads and after-sale servicing.

Others say this country has too many shops for too few customers and the high overheads would be reduced if a number of the least efficient retailers were allowed to go out of business.

The small size and widely spread consumer market makes high-volume discounting less attractive here than in a country like the United States with large concentrated bodies of consumers and cheap internal freight costs.

But this argument is academic insofar as no one is likely to be given the opportunity to try discounting whiteware — given Fisher and Paykel's opposition to the practice.

Brown goods are being discounted. This market is shared by a greater number of competing manufacturers than exist in the whiteware market.

And it has been pressure from manufacturers to cut prices to unload stock rather than a willingness from retailers to cut their margins that has led to some price reductions to the consumer.

Like Fisher and Paykel, Pye Electrical uses franchised retailers. But Pye's managing director, Max Hunt, says he foresaw a complete change in style coming to New Zealand retailing — changes that his company would have to heed.

"We will see slipping margins in audio equipment. In the long run it will be the performers that win. New Zealand will have to stop protecting the lowest common denominator," Hunt has said.

Pye's attitude contrasts markedly with Fisher and Paykel's. But, then the products are very different.

As Hunt explained, audio gear has become something of a fashion item and old stocks have to be moved quickly to make way for next years' model.

Pye offered 800 unit lots of isotronic sets to retailers at prices reduced from $1195 to $995 recently.

Retailing sources say this consumer bargain raised some hackles among smaller retailers who felt those in a position to move greater volumes were getting a better deal. There was even some talk of boycotting Pye for reducing its prices.

There appears scant evidence that retailers are willing to cut their 40-42 per cent markups on audio gear on their price-controlled 30 per cent markup on colour TVs.

Given these attitudes, the road to the sort of competition envisaged in the Commerce Amendment Bill will be rocky indeed.

Warren Berryman is NBR's Auckland reporter

High noon looms for PM

by Herman Schlatter

"MORAL crisis, apathy and impoverishment of the Antipodes."

That was the headline on a summary about the decline of our standard of living in *Neue Zurcher Zeitung*, one of the world's most reliable newspapers.

The paper pointed to high inflation and unemployment, growing foreign debts because of exuberant borrowing, growing Socialism and an increasing atmosphere of confrontation between trade unions, employers and the Government in a country which in the 1950s occupied third place for its standard of living in the Western world (against today's position at the tail-end of the ladder).

Rob Muldoon . . . "able to frustrate friend and foe"

To put the blame on the ever-increasing costs of oil imports is hardly convincing. Every other country, rich and poor, is burdened with the same problem.

After his spectacular election win over Labour in 1975, Rob Muldoon was heralded as the saviour who would stop New Zealand's economic decline.

But he has lost much of this nimbus and support even within his own party and is facing an uncertain future.

In the meantime the numbers of qualified people leaving this country are not decreasing.

Foreign debts have trebled since 1975, and amount to more than $1000 per capita.

Then there has been the debacle of the unfinished Mangere bridge in Auckland and the prolonged hold-up of Wellington's container crane.

The complicated system of import licensing protecting local industry from competition has led to lower productivity, thus preventing due replacement of old machinery and plant.

Excessive income tax penalises industrious workers and businesses and those investing capital in industry are double taxed.

The power of the trade unions, with their ever-occuring stoppages, hold-ups and strikes, must take a great part of the blame for our economic plight. People outside of New Zealand are unable to comprehend how we permit and put up with conditions where so-called democratic free unions are allowed to combine with other unions not involved in a dispute to dominate an issue by sheer strength of numbers, thus creating fear of economic repercussions to industry and exports.

Fear and pressure hardly ever produce a satisfactory result when parties eventually meet in conciliation, often after long and costly delays. The end result is that the same trouble is likely to flare up again.

In Europe, it is called the English disease.

The strike weapon, specially sympathy-strikes, have become outdated, punitive, irresponsible and too costly in today's highly competitive world. They *have* caused the closing down of factories and the reduction of staff in many industries and smaller business, causing unnecessary unemployment and redundancies.

The Federation of Labour, with its power and responsibility to consider any dispute on its individual merit, should use its influence for the benefit of all concerned. But when called on to use its powers, it has not even been able to prevent stoppages and strikes in disputes of demarcation between it own affiliated members.

And so our internal costs are rising at such a rate that many of our basic and natural main products like meat, fish, timber, paper and so on — end-product which should be available to everyone at reasonable cost — are becoming luxury items.

In the political field, our Prime Minister was described by *Neue Zurcher Zeitung* as being a 59-year-old accountant and costing expert; his manner as being abrasive and aggressive and able to frustrate friend and foe alike.

People with a memory will recall his unique payroll-tax. Universal superannuitants will also remember the 1975 election scheme, promising super at a final 80 per cent of the average wage to a married couple. It took more than 2 years to discover "that a mistake had been made and such payment should have been calculated at 80 per cent of the average net wage.

Realistically, our Prime Minister could have left the qualifying age at, say, 65 for men and 62 for woman, considering the state of our economy.

As to our politicians in general and election issues, democratic considerations were tossed aside by both National and Labour when the appearance of a third party was considered by them to be an intrusion into their own traditional two-party politics.

Likewise, party political expediency would appear to be the suspect reasons for the negative replies to the Chamber of Commerce by the three leaders of our Parliamentary parties to a recommendation to extend the life of Parliament from three to five years.

The prospect of having to stay five years in opposition or otherwise must surely have its compensations, since all members of Parliament would be assured of a five-year term in the House instead of possibly only three years.

It is indeed "high noon" for both our politicians and trade unions to think and act in terms for the futue of this country which, with good management and the people to back it up, has great potential.

Harman Schlattar is a retired businessman.

Letters

Tax clemency for who?

I WAS intrigued to read Peter Isaacs article "Office Products group seeks sales tax revision" (*NBR* April 21).

Whilst accepting a principle of indirect rather than direct taxation, are we to be greeted by an onslaught of those in the over 20 per cent bracket lobbying Government for clemency.

Perhaps those concerned would prefer a duty rate of 40 per cent payable at time of landing, rather than a 40 per cent sales tax payable only when actually sold.

This would help add credance to the fanciful claim that sales tax inhibits actual importation of units.

As far as the small microcomputer market is concerned, I would suggest that the reason for this is not sales tax at all. One Californian supplier quotes an fob export price of $US636 yet that same unit retails in New Zealand for in excess of $1200 *not* including sales tax. Bear in mind there is no duty on these items.

Customs tariffs and sales tax are far from perfect but the national trait of turning to the Government in times of adversity is a practice that should be *actively discouraged* at all levels of society.

To quote from a recent American Warner and Swasey advertisement talking about Government subsidies "...the billions all this costs are bad enough for they are adding to Americas ruinous inflation but an even higher cost is the fact that these free things are shifting responsibility from the individual to the government and like drugs, the more people take the more they want..."

The adage when the going gets tough the tough get going is as true as ever.

John O'Hara
Auckland

Values' leader loses grip

COLIN James' analysis of the present position of the Values Party (*NBR* April 14) is accurate.

I have been in the Values Party since its birth, stood for Parliament under that banner twice, and have devoted much time, energy and money in co-operative efforts with many others to develop a political party adequate to the present needs of New Zealand.

At the grass roots there have been, and still are, many dedicated, able, commonsense people. All along there have been unrealistic elements in our party.

The leadership of the Values Party has never been able to grasp the tremendous opportunities arising from the vacuum in the mental processes of the three old parties. The present leadership of our party does not live in the real world.

Some group will arise to give New Zealand the leadership it must have to survive in the complex modern world. There is a slim chance that wholesome, wise, vigorous elements of the Values Party will unite to give our party and our country that leadership.

John R Perkins
Tauranga

Bolger wrong on union use

JIM Bolger is not being very honest (*NBR* April 24) when he says that the problem with the arbitration system is that unions are not willing to use the Arbitration Court. He says that there needs to be a stronger commitment by unions to use the system.

Our union recently had cause to write to the Minister expressing our grave concern at the lengthy delays experienced when a union does decide to use the system.

In our negotiations for a main industry award, partial agreement was reached in September 1979 and it was decided that one outstanding clause (not wages) would go to arbitration. A date for a court hearing was fixed in December, but due to a minor point on the wording the matter was referred back to conciliation but was back in the court's lap within a few weeks.

A court fixture for March 1980 was cancelled by the court and we are now hopeful that the hearing will be in May, with a result in June 1980, nine months after the main conciliation hearing.

In another case, a dismissal in July 1978, the Arbitration Court hearing was in December 1978 and $2000 compensation was awarded to the worker. The employer, Cornhill Insurance, appealed to the Appeal Court. This was heard in March 1980 and has now been referred back to the Arbitration Court, where we join the long queue of unheard cases. The worker has not yet received any payment.

We do not blame the court for its capacity to handle cases dependent on the resources provided by the Government.

Bolger's appeal to use the system is a hollow one, for the Government, as the above cases show, provides a strong disincentive to unions to use the arbitration and court system.

G J Ogilby
General Secretary
Insurance Workers Union

Wonky samples

AFTER reading Grev Wigg on surveys, I checked out the McNair radio reports very carefully.

To my horror, I found that the examples quoted by Richard Todd in defence of the sampling were the only ones of stability. All the rest go up and down like yo-yos.

I would like to thank Messrs Maxted and Wigg for alerting me to this situation, and hope that the Market Research Society will act quickly to correct it.

Angela Fra...
Advertising Manager
Martin's Toys and Hobbies
Auckland

Saw tooth inflation

STRANGE how most politicians and economists pretend that last year's inflation just disappears. Even graphs illustrating rates of inflation use the previous quarter or year's rate of inflation as a basis of comparison.

Your economics correspondent (*NBR* April 21) includes a graph depicting inflation change since 19.. with a saw tooth shape. It ignores the fact that current inflation compounds previous year's inflation.

Quoted rates of inflation are not absolute as are temperature and barometer readings.

With a base of 19.., inflation is now not 18 per cent but more like 400 per cent. The graph should resemble the slope of Mount Cook.

C G R ...
Nelson

"Gasoline costs so much these days, Lefty, so on the way don't start the car until he's come out of the bank."

Politics

Labour's emerging "new-breed" class of '81

by Colin James

"YOU, you bugger, you can enjoy yourself watching us squirm," said the party activist, buffeted by the turbulent winds of political uncertainty.

There was something in what the activist said. It is invigorating describing the shifting sands of the 1980s while those trying to get on and do something struggle to keep their footing.

There have been more events of significance in the past 18 months than during all of the Holyoake 1960s.

Not just more, but also more diverse. The 1960s resembled a slow-moving river, broad, peaceful, undirectional.

The 1980s are like a boiling seapool, seething backward and forward against unfriendly rocks. Just when you think you've detected a mainstream, a sudden eddy carries the water off in another direction.

Invigorating, fascinating for us on the sidelines, but also nerve-wracking. The politicians haven't got balancing troubles on their own.

No sooner does something seem to be safely taped, than it slips away. At the end of this three-year parliamentary term these columns, however accurate at the moment of writing, will probably look like a casebook of inconsistencies.

Take the politics pieces in *NBR Outlook* (published this week).

They were filed round six weeks ago and though their broad thrust still holds, I would now present them differently in some details.

For example, I still think that the new breed in the National Party has changed the intellectual framework of New Zealand political discussion and that Labour's long-term future depends on how well it adapts to and develops policies appropriate to that framework.

But I would probably assess Labour's likely impact in the 1980s a little more favourably.

The "event" that has caused this reassessment has been the early Labour selections of candidates for the 1981 election.

There is some embarrassment in the party that so far no trade unionist or *Maori* has been selected — inviting, in the Maori case, a mana motuhake candidate in Onehunga unless Labour goes bi-racial there.

But, that aside, the strong impression from the early selections is one of youthful intelligence.

The candidates by and large, are not artery-hardened descendants of the Depression. They have the confident flexibility of the post-war generation.

They also have won so well in each case that it is clear they have the blessing of the party. There has been none of the 1977-78 bleeding in public.

One can perhaps go as far as to say, that they represent the emerging Labour Party, the party of the urbane liberal professional who sought refuge from the PM in 1976 and stayed to run the organisation more energetically at lower levels and initiate a freeing up of policy formation now beginning to work through.

They got their figurehead last year in Jim Anderton, an urbane liberal businessman.

While elsewhere at the top nothing much changed — David Lange's elevation to deputy leader was a throwback to the 1930s, viewed in terms of political ethos — underneath the change appears to have been deep and massive.

I am not suggesting that the candidates now emerging are johnnies-come-lately. They all have party histories stretching back before 1975.

But, with the exception of Christchurch last time, the party has not been receptive to them. Now it is.

Twenty-five-year-old Peter Neilson's defeat of 51-year-old party secretary John Wybrow for the Miramar nomination is symbolic of the defeat of the conservative machine by the new-broom brigade.

Some people have recognised this apparent change. The party activist I quoted above — active in the National Party, I should add at this stage — was drawing gloomy lessons from the Labour selections for National's chances in 1981.

Alarmism? After all, did not the Heylen-*NBR-Auckland Star* poll on April 12 show National still further ahead of Labour and still apparently on the upward path the poll has charted over the past half-year (*NBR*, April 7)?

Indeed it did. But try to figure why that line has bent upward. An upward move suggests some positive attraction.

My guess is that it is a sign that the Chapman strategy of 1979 has been working. The party has successfully focussed attention on the new breed in the back benches and in the Cabinet as being the real driving force of the Government.

These people have an image of vigour and confidence. Since the Prime Minister more or less joined the bandwagon late last year, he has been getting a better poll reception too.

If my supposition is correct, then the National success has a potential Labour matcher.

If once the public gets a sight of the new Labour Party emerging on the back benches and in the selections — if the new mood in the party is communicated somehow to the ordinary voter — there could be a rush of new support.

I no longer regard as far-fetched Anderton's claim a couple of weeks ago that when the two parties front up in 1981, there will be a landslip of support from National to Labour.

I ruefully remember remarking in these columns, about the middle of 1978, that Labour's poll support belied its strength of organisation in the electorates — a strength that came good during the campaign with a big late shift of support to Labour that made asses of pundits like me, who lost sight of the underlying strength.

Labour canvassers now tell me that they are hearing a hymn of hate against the Government of unprecedented proportions. But it is not yet showing up in the polls.

Is there the makings of another campaign landslip next year? Does it matter that Bill Rowling's image is still poor, that there appears to be a policy paralysis at the top of the party, if the earth is already moving underneath?

Who can tell? But it is food for thought for National and a Prime Minister who seems to think that he has made enough gestures to the new breed and can hang on to power with the old guard still gathered around him.

Over the past month or so, I understand, he has been telling some older ministers, who normally can be expected to vote with him in Cabinet divisions, that they are assured of Cabinet posts till 1981.

They have been thus indirectly (and perhaps explicity) encouraged to stay for another term in Parliament, even though apparently no assurance has been given of continuing Cabinet status after 1981.

One can see the Prime Minister's point. Between 1975 and 1978, on complicated economic matters the Cabinet listened respectfully to his arguments and endorsed his decisions. Only Hugh Templeton and Jim Bolger at the far end of the table took him on much.

Not since the new blood of 1978 came in, the questioning has started halfway down the table. Thus the 9-7 Petrocorp decision more or less represented the old and new Cabinets.

I understand one of the older ministers changed his mind during the crucial meeting, turning a 9-7 decision for BP to an eight-all vote and bringing another weakly-pro-BP minister in behind the Prime Minister to avoid the unseemliness of forcing the issue to the Prime Minister's casting vote.

Did the mind-changer do so solely on the merits of the case? Or was there a little bit of the old prime ministerial mesmerism helping?

Whatever the case, the fact remains that the "young and vigorous image" the party organisation and back benches want to project in 1981 may be obscured by the wholly understandable desire of old ministers to continue to contribute as long as their master thinks them useful.

It may not matter. Perhaps National is so impregnable that nothing can stop it winning in 1981.

But those in the party with longer vision do not see it that way. One said last week that National's worst enemy ws "Wallace Rowling" — a reference to the belief current in the party that with Rowling leading Labour, National cannot lose.

There are forces at work in the party — how strong, it is too early to estimate — to challenge some of the older ministers and encourage them to join hitherto sole retirer Colin McLachlan.

The latest soundings on Remuera reaching Wellington suggest that Allan Highet's support there is softening. There are the beginnings of murmurs about Taranaki where (where David Thomson is MP) and Waikato (Lance Adams-Schneider).

One backbencher who has taken the him is Leo Schultz, having been, as one insider put it not entirely tongue-in-cheek, "threatened with Ruth Richardson", the Mighty Mouse lawyer who took on Bill Rowling.

Times are changing. There is an impatience in both parties to sweep away the vestiges of the 1960s.

Wouldn't it be a turnup for the books if, in successfully outflanking the sceptics and opponents in his midst, the *Prime Minister*, whose magic won in 1975, buried the party in 1981?

Economics monitors mark Govt's Budget targets

Economics Correspondent

WHEN the Economic Monitoring Group's latest report, *New Zealand Economic Trends and Policies (Report No 3)* was released at the end of last month, Muldoon sneered that it was based on superficial research. But it will be interesting to see how many of the Group's policy recommendations are introduced in the 1980 Budget.

Indeed, the research contained in the report is superficial. How could it be otherwise, considering that four people with diverse backgrounds are charged with the difficult task of assessing Government policymaking in light of current economic conditions while holding down other jobs at the same time.

The strength of the report is that it has been written by people from outside the Government who are not directly involved in policymaking. Two members of the Monitoring Group, Dr Donald Brash and Peter Poulson, are businessmen and two other members are economists, Dr Gary Hawke, a professor at Victoria University, and Sir Alan Low, a retired Reserve Bank Governor.

Muldoon went on to say that economic research undertaken by Government departments is much more thorough. Since the Government has access to more resources and a larger information base, it would be alarming to hear that its research was not more thorough.

The Monitoring Group does, after all, have power without responsibility. It has been empowered to assess the implications of current and prospective short-term economic developments and to make policy recommendations.

Since Government is responsible for implementing policies, we hope its economic research is of a higher standard than that of the part-time Monitoring Group. But because the Government never publishes its own assessment of economic trends and policies, we have no evidence that its research is of a particularly high standard. We have to take Muldoon's word for it.

When the Government presents its Budget each year, it relies on the importance of the occasion to leave the wider public with the impression that any economic policies introduced are the right ones.

The Monitoring Group has released its latest report before the Budget so that the context within which this year's Budget will be released can be understood.

Readers can evaluate whether policies chosen by the Government are appropriate, given the Group's interpretation of economic conditions. They can also compare what the Government actually does with what the Monitoring Group suggests.

Little that is new and original is contained in the Group's assessment of the current economic situation and prospects for the immediate future.

The Group writes that New Zealand's current economic position is dominated by slow growth, unemployment, balance of payments deficits, inflation and diminished investment. And it throws its hat into the forecasting ring with the New Zealand Institute of Economic Research and the Organisation for Economic Co-operation and Development (OECD), endorsing the view that we are in for a mixture of recession, inflation and a larger external deficit in the year ahead.

The remarkable feature in this report is the attempt to integrate policy recommendations so that progress can be made on all fronts at once. Throughout the report, the Monitoring Group emphasises the inter-connection between inflation, employment, Government expenditure, taxation, wage increases and industrial conflict.

A package of policies to deal with all these components is recommended if the economy is to be steered towards stability and growth in the medium term.

The Monitoring Group states: "As long as inconsistencies and expediency continue to loom large, Government's influence on the economy will register only isolated instances of success and will promote a continuation of crisis of inflation, overseas deficits, unemployment and falling real profits."

Existing policies isolated for positive comment by the Group include exchange rate controls, export incentives, and the use of tariffs for protection. The Group also commends the Government for allowing interest rates to move freely since 1976.

The diagram presents a brief outline of the consistent policy mix advocated by the Monitoring Group. It provides readers with a report card for assessing the Government's 1980 Budget performance.

The Group is particularly disturbed by the recent sharp increase in inflation. In its view, a major influence on prices came from the Government's expansionary budget policy adopted from late 1977 to mid-1978.

Expansionary policies created what the Monitoring Group calls an "excessive" Government budget deficit.

"When the deficit has been financed by overseas borrowing or by borrowing from the banks, it has led to an increase in the monetary base (the lending base), an increase in money supply and inflation, and as a consequence of that inflation, an increase in interest rates."

"Investment in the private sector has been discouraged as a result. When the deficit has been financed by aggressive government borrowing from the non-bank private sector, the inflationary consequences have been more limited, but private sector investment has tended to be 'crowded out' by the increased interest rates paid by the government on its own securities."

So the Monitoring Group believes that a phased reduction of the Government's budget deficit is a paramount policy target. The deficit for March year 1980 will be around $1300 million, about 6 to 6½ per cent of GDP. A target of 5 per cent of GDP or about $1150 million is held to be appropriate for 1980/81.

This target will be difficult to achieve by increasing Government revenue because there is limited scope for increasing taxation or for raising Government charges. So growth in Government spending must be slowed.

And the report reluctantly concludes that "if we are to reduce the pressures of high inflation, high interest rates and low investment by reducing the government deficit, we have no alternative in the short-term but to make some significant reductions in the rate of growth of Government transfer payments (social security benefits) and subsidies."

With inflation at 15 per cent, a person with taxable income of $10,000 requires an increase in pre-tax earnings of 18 per cent to retain the same after-tax income; at $12,000 the increase required in 21 per cent.

To get out of this wage/price spiral, the Monitoring Group recommends that the personal tax structure be indexed so that as incomes rise the tax rates are automatically adjusted for inflation.

The Group also recommends a reduction in the proportion of tax revenue from taxes on income and an increase in the amounts raised by taxes on expenditure.

Indexing the income tax scale will make the Government more accountable for its budget and monetary policies. But the Monitoring Group also echoes the OECD's call for tri-partite talks between unions, employers and the Government to attack inflation by controlling wage movements.

1980 BUDGET ASSESSMENT
(Based on policy recommendations in Report No. 3 of the Economic Monitoring Group)

Problem	Solution	Target
Inflation	Lower Budget Table 2 Deficit	Deficit to $1150 million in 1980/81.
Low investment	Keep same volume of Government investment Move resources from consumption to investment	Government investment at 5 to 5½ per cent of GDP Greater utilisation of capital stock
Government spending too high	Reduce current spending on National Superannuation Tax the family benefit	Get spending on social welfare payments and subsidies below 15 per cent of GDP
Widely fluctuating monetary conditions	Better management of the Government's deficit	Inflation reduced to 13 to 14 per cent
Excessive demands for higher money incomes	Reduce progressivity in personal income tax scale; index scale for inflation	Income taxes provide less than 60 to 65 per cent of central Government revenue
Poor company output and investment performance	Reform company income tax	Taxation of true profits only

Keep this diagram until the 1980 Budget is presented later this year. Whether or not you agree with the Monitoring Group's policy prognosis, its analysis contains a basis for evaluating the Government's economic performance.

Profile

Petrocorp's young partner lives by bottom line

by Rae Mazengarb

ALBERTA Ges Chemicals Limited – unknown to New Zealand before the race to gleen petro-dollars from the Maui resource – started out as Allarco Chemicals Limited 10 years ago.

In 1970 it saw that the gas prices on the American Gulf Coast would increase remarkably fast and that there was an opportunity to build a plent in Alberta. "To put up a world scale plant capable of providing Canada's need with some export possibility for the United States," was the idea, explained AGC chief John LoPorto.

Personalities involved at the time were LoPorto and his late partner Bob Coles, who had been with him for many years in other ventures, and AGC's present chairman Dr Charles Allard.

It was Allard "who recognised the possibilities in the reports and studies we'd brought and immediately set out to fund our first plants," LoPorto recalled.

"The rest is a matter of history. Before we had the first one on we started to build the second. The market potential increased so rapidly that we're now building a third . . . and in 1973 we brought in Alberta Gas Trunk Line as a 50 per cent partner."

They formed an American corporation – fully owned by AGC, called Alberta Gas Chemicals Inc – which manufactured malic and fermaric acids for the food industry at Minnesota. They added terminals at Vancouver and other centres, increased their transportation fleet, and then started the construction of the plant – twice as big as the others – which is the forerunner to the New Zealand facility.

In May 1979 AGC heard through "friends" that there was a possibility of a methanol plant to be constructed here. "We looked at it further – particularly the fact that the Government had requested proposals – and through other people we got to Petrocorp. They came and visited our plants in Alberta and on the basis of that we decided together to put in a proposal."

John LoPorto . . . petrochemistry feeds on itself and grows

AGC knew "the other side was not in methanol production, knowledge or markets". LoPorto said they knew nothing of the competing proposal except what they had read in the newspapers and heard describing the type of technology and the contractors . . "We could surmise from knowing the industry."

It does not matter that the company has not had any previous work in New Zealand. "In the things we know – the technology of the plant, how to make methanol – the molecules will react in New Zealand just as they do in Alberta. I can promise you."

AGC intends to arrange marketing of the entire plant output in the Pacific.

"There is no company in New Zealand that knows methanol as we do and so we brought technical skills, knowledge, training, backup and executive skills in this field, and we were looking for someone that had local expertise".

As far as the locally-owned 51 per cent shareholding is concerned, "We have made our feelings known to Government".

LoPorto is sure there is a place in the shareholding for the local "person in the street".

He expressed surprise at the headlines about AGC holding fast to its 49 per cent stake.

"To my knowledge it was never challenged by any of the people we were dealing with. No one ever said that it was necessary to surrender any of it and therefore much fuss was made about an argument that never existed".

But he was quick to point out: "We're (AGC) not taking operating contracts where we sit with calm detachment while the New Zealand company makes a very small profit as long as we are taking care. We're putting our money, our skills, our technology and our best people into this venture and we expect to live by the bottom line – and quite frankly, it's just not in our interests to do it for any less than 49 per cent".

A striking feature of LoPorto's team of specialists who were out here a week ago, was their youth. But around thirtyish is par for the course for some of the top people at AGC.

"On a scale of age we are a young company and our people – most of our officers and top people – are younger in general than equivalent industries in Canada and their executives if we measure them; but they are selected for their capability to do the job.

"Our company's expanded so fast that we've had great promotions through the company. We do have a young staff . . . when I look back on that I'm not clear if that was done by design, however it's happened and I like the thrill of working with some of these young people.

"They move very fast and we have a lot of fun in what we do. We work hard and we play hard at this business. We have many diverse backgrounds in our company, even though they're very young, and our technical staff is ranked with degrees. That means formal training: and we never stop training in the company. We're always sending people to learn and see on sabbaticals. We're not very old in terms of some of your older companies here," LoPorto said.

The AGC team is still learning about the way in which New Zealanders conduct business. "So far as I can see (it) is perhaps a bit more formal than the way we conduct it", but the end result is the same.

LoPorto explained a little about the internal workings of his own company. "Firstly, all of my officers are in touch with me every day and I'm in touch with my chairman no later than every second day – usually every day. So we're tightly reined in the company structure".

The New Zealand plant though similar to that presently being built in Medicine Hat in Canada, will have to be modified for New Zealand conditions – weather, water, seismic requirements but essentially it will be a duplicate.

As far as management is concerned, the New Zealand plant will operate mainly with New Zealanders. Early on in the piece there will be a lot of Canadian experts here for short periods.

"Others will be involved in the make-up of the management of the company – probably not more than four or five – and they will be selected from our staff".

LoPorto said "almost everybody on our staff" is applying for these positions.

Because a major part of the output will be exported, producing a lot of foreign income, the deficit between imports and exports in dollar terms will be reduced, he said.

And it is not only dollars. LoPorto said both AGC and Petrocorp have received letters from New Zealanders all over the world: technically trained New Zealanders who are operating and working in other places. He pointed out he had not seen any statistics which might indicate that this is a general trend, but says it is a "refreshing surprise" that so many New Zealanders overseas have heard about the plant.

"I suspect it means that they would like to see opportunities for high technology in their own country and some of them – I'm sure – will be back".

The company here will have about 100 people in operation – though during the construction period jobs will peak at about 500-550.

LoPorto admitted that his company is interested in the other derivatives of methanol. But "we have our hands full with getting this first world scale methanol plant constructed and operating", he said. LoPorto is sure the plant will have an economic life of at least 20 years.

"I say that with some knowledge of the fact that we're approaching the theoretical and practical limits of the efficiency of the process and therefore these plants will not become technically obsolete as some of the previous methanol plants have become".

But there are hints of further future involvement from AGC. "Perhaps we'll build another plant and derivative plants using methanol as a feedstock . . . If you take a certain amount of gas worth so much and upgrade it to methanol you probably increase the value added by manufacture by a factor of five to eight. With the next step up you may increase its value added manufacture by a factor of 20," he explained.

Higher up the chain of derivatives, transport differentials are reduced, shipping becomes less a percentage of the cost. "That's how petrochemistry starts in places that it doesn't exist: it feeds on itself and grows. I hope we can do some of those things here."

Profile

Straight-talking president heads methanol team

by Rae Mazengarb

ALBERTA Gas Chemical's president John LoPorto is a professional dedicated to his business who insists on straight-talk.

"I like shirtsleeve English, I like simple reports, and clear ideas. I like to think that when I decide, I make something happen rather than decide to wait".

LoPorto, in his early fifties, heads a young Canadian company which with its equally youthful partner, the State-owned Petrocorp, pipped the competing BP-Fletcher-Challenge-ICI consortium at the post with its proposal to build a 1200 tonnes-per-day methanol plant.

While the news media had a field day expounding the different merits of State versus private enterprise, ("a very strange argument"), AGC kept a low profile, directing its activities toward feeding Petrocorp "the information they needed to make the best stand".

"I hope that the people that made the decisions had a better handle on the real issues than the press had. I'm sure they did, finally," said LoPorto.

He described the whole argument as "rather wierd," but felt inclined to point out that while the BP company is significantly British Government owned, AGC is a 100 per cent private enterprise company owned jointly by Allarco Developments of Edmonton, Alberta, and Alberta Gas Trunk Line Limited, both listed public companies.

His company might be Canadian, but softly-spoken LoPorto is decidedly American. Born in Weehawken, New Jersey, he said he is basically an Easterner, born and bred. "That means on the East Coast of the United States . . . lived in New Jersey, Connecticut, a short time in Massachusetts, and studied on the East Coast – although I've travelled everywhere in the world except Russia," he said.

He took to sciences at an early age. "I just enjoyed them more, although I have read deeply in the classics and humanities". In addition to training, – the son of a food business consultant – Lo Porto's future must have been – to a degree – predetermined.

"I think my parents always knew I would take a profession in the sciences in some way or another. The work I do now is a combination of everything I know. It's business, it's technology, it's people, it's markets, it's law – although, I'm not a lawyer.

"I've spent some time at university, usually in between my work experience," he said, adding that is just an overview of his formal education. He has learnt plenty of other things during sabbaticals and the like.

Life is not all business, and LoPorto admits he is probably two different people. "I can be very dedicated to the business, but when I get in a holiday or a fun mood, I sort of forget it all and just have fun . . . I can be really different".

For pleasure, "I like violent sports, I like a boat, I like an ocean, I even like a good golf game – but that's more mental to me than physical".

A real charmer – ask him a question about himself, and he's bound to ask one back – LoPorto has four children, "sort of grown up and out". All have been through university, and are now working all over the United States. "I still see them often," he said.

On the other hand, he is still the businessman and said this new venture will be a demanding one.

"As we build this plant and involve some of our people here, the necessity for continuous contact with it will occur and I will be able to be here for directors' meetings and overview meetings of progress and so on".

He will have continuing contact with this country – not by living here, but by keeping in touch with his company's activities. "I like the country. New Zealand is a beautiful country with very hospitable people", he said.

But he said it is important that this country gets inflation under control – "I think your officials have taken steps to do that. In that line I might say that a world scale plant that brings large amounts of foreign capital is a unique way of doing it. There are many others that will have to be done."

LoPorto is cagey about the role of Government in business, but he responds bravely to the question.

"I think history will prove – and can prove – that those governments that have left the business climate to its own doing, concentrating more on the freedom of business and limiting its activities to not permitting business to misuse the land or the environment or the practices of the citizenry, have been more successful.

"Business flourishes and grows when it can clearly see its way and not have to depend for everything it does on a government decree. I feel on the whole. . . . you can have a government create a business climate in which, so long as the companies involved don't break the law, they can more or less take their own actions," he said.

There had been some speculation about the role of trade unions in the development of our energy resources. LoPorto said he thinks AGC can work well with New Zealand trade unions. "I don't see why we can't from the information we have studied, and we'll do everything we can to ensure that for our part we will meet them more than half way."

Govt begins to signal its budget approach

PETER V O'BRIEN commanla on lha financial and bualnass waek, appralaas lhe shara markel end analyses company accounls.

THE Government is signalling in broad terms its approach to the Budget. Speeches in recent weeks from Ministers and/or their advisers plus the "independent" advice from a variety of semi-official bodies indicate the likely general direction of economic policy.

A pattern emerges when the strands are brought together. The detail, as usual, is unknown.

Finance Minister Muldoon has talked about the desirability of keeping gross wage increases down, and adjusting personal incomes through the tax system.

The difficulty relates to the effects of the Consumer Price Index on wage rates. Increases in wages find their way into price increases as firms recover higher costs in a dull economy.

There is no one for one relationship between, say, a 10 per cent wage rise and an overall 10 per cent lift in company costs, because each particular product or service has a different wage component and wages are not the only inputs affecting total costs.

A cut in personal taxes leaves more money in consumers' hands, but has no effect on the CPI. The latter either remains static, (assuming that prices for other inputs are unchanged) or it may rise under pressure from higher prices for imported raw materials, fuel, and so on. The tax cut will not be taken into account in wage bargaining based on CPI increases and gross incomes.

A tax cut also forces the Government to look elsewhere for its revenue, after allowance for fiscal drag (the process whereby increased incomes push individuals into higher marginal tax brackets, and thus automatically lift the Government's take).

The administration is looking at expenditure control, but that is a difficult process. More than half total Government expenditure is in wages and salaries, which are always under pressure from employees' demands.

The rest of the Government's outlay is accounted for largely by transfer payments and spending on services which the community regards as "rights": education, health, and the other activities which have received Government support over the years.

The move to indirect taxes is the main option after the Government controls its spending. Indirect taxes show up in the price index, and we are back in the circle, where the reduction in direct taxes has no effect on the index, but other costs, including indirect levies, force it up.

Muldoon refers regularly to indirect taxation. Deputy Finance Minister Templeton, speaking to the Bureau of Importers and Exporters (*NBR*, March 24), said the Government "has therefore decided the better policy is to maintain consumer demand through reductions in personal income tax."

The logical follow-through to Templeton's remarks is some recovery through indirect taxes.

The Planning Council's task force on investment in New Zealand (discussed in *NBR*, April 28, and to be published this month) called for a low level retail tax.

Other references have been made to the same matter.

It is likely that the Budget will include another adjustment to personal tax rates, and additional moves to indirect taxes. Cabinet's decision to turn down a cost of living wage order adjustment confirms that view.

The suggestion that the unions should wait for the June CPI figures might fall in neatly with Budget timing. The June figures are available in mid-July. That will be within a week or so (either way) of Budget night. The other option, going before a special tribunal, would extend timing of decisions until well into June, given past procedures.

Reserve Bank Governor Ray White, touched on tax reductions in his speech to the Association of Superannuation Funds (*NBR*, April 28). "The Government's contribution to the reduction of unit costs should be by reducing general taxation — whether direct or indirect — to the maximum extent possible for almost all taxation adds to unit costs of production."

White passed over the obvious question, where does the necessary revenue come from, but he was on the general theme of reduced direct tax, and might accept the alternative of an offsetting movement in indirect tax as an interim measure.

The list of people calling [for] progressive removal of im[port] licensing is now very long [...] recommended time [...] vary according to [the] proponent's viewpoint.

Templeton talked a[bout] this indirectly in Au[...] saying that the proposa[ls for] the textiles industry w[ould] have to be followed in [other] industries. White referred [...] in his speech.

Every economic pape[r ...] the welter of analyses (w[...]) divorced from practica[l ...] tical reality) which the [Plan]ning Council writes or [...] missions is on the same [...]

Timing also affects tra[nsfer] payments and other Gov[ern]ment expenditure. Temple[ton] took a cautious view, a[nd] said "there is no alterna[tive ...] limiting wage and [...] demands and all highly de[sir]able social and humanita[rian] expenditure" (*NBR* emp[...]).

The Economic Mone[tary] Group took the econ[...] approach of power [...] responsibility, failing [to] realise that our pr[oblems] evolved over about 30 [...] and cannot be solved in [...] two years.

Other signals appear[...] terest rates and m[...] policy, overseas inte[...] rentsical of l[...] procedures in many c[oun]tries, and the need to c[...] State, or semi-State [...] monopolies. It might a[...] together in the [...] provided the effects a[re not] seen as too rapid a[nd] radical.

Analysing annual accounts: Tolley Holdings Ltd

TOLLEY Holdings Ltd has suffered three years of declining sales revenue, but costs continue to mount under the impact of inflation.

The 1979 annual report shows that sales were \$23.8 million, compared with \$24.12 million in 1978 and \$24.18 million in the previous year.

The sales figures are unadjusted for any price increase (some can be presumed), so volume sales have fallen considerably in three years.

Costs rose from \$23.9 million in 1977 to \$25.1 million last year. The result has been minimal profitability, after allowances for tax writebacks, extraordinary items, and export rebates.

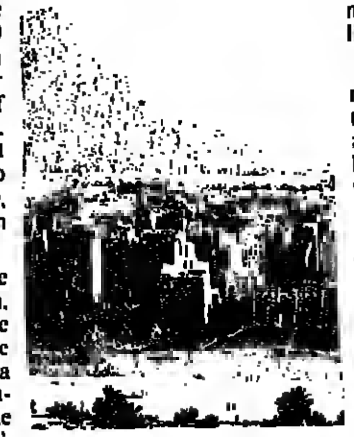
The company recorded a loss of \$1,315,000 from trading in the year to November 30, 1979. An export sales incentive rebate of \$369,000, deferred taxation written back of \$492,000, and extraordinary items worth \$248,000, cut the figure back to a loss of \$206,000. The deduction of \$5000 in minority interests produced the net loss of \$211,000 for the year.

The reason for the problem is set out in the comments from managing director Brian Tolley, but it is difficult to work out where the major losses occurred, because the company gives its divisional results in global figures.

Tolley said: "It is therefore with pleasure I am now able to report to you that the steps we have taken have proved to be effective, and that by late 1979 profitability was once again restored, despite a very poor domestic market for most of our major product lines . . . We have now reached the point where we can look forward to the future with confidence, both in the short and medium term."

Tolley continued with the optimism: "In the short term, our sales and profitability are set for improvement for the first time in three years as a result of the efforts and initiatives that have been made or put into place in 1979 . . ."

"In the medium term, the fact that New Zealand is now finally coming to grips with some of the investment projects required to safeguard the country's future, has of course a major significance for this company. We undoubtedly have the capability to design, produce and commission the complete electrical reticulation system from incoming cables, through to transformers and power and control circuitry equipment."



So hold on folks, we are coming right. That may or may not be accepted by the shareholders, who failed to receive a dividend in respect of 1979, after obtaining only 7 cents a \$1 share in 1978, following a cut from 1977's 10 cents.

Examination of the consolidated balance sheet confirms that Tolley attempted to cut off any fat from previous years.

Group current assets rose only \$550,000 to \$14,449,000 over the last 12 months, a good result when inflation is taken into account. There is a rise in current liabilities from \$6 million in 1978 to \$10.7 million last year.

The change is reflected in a reduction of \$4.1 million in term liabilities, due mainly to a previous "long-term" liability now falling due within 12 months.

The report comments on group inventory control, and the figures support the claim. Total inventory went from \$8,677,000 in 1978 to \$8,970,000 last year. A rise of less than 4 per cent when inflation was running at 16.5 per cent is a good effort, although part of the small movement no doubt relates to the lower level of demand for group products during the period under review.

The largest individual movement was in raw materials, which increased from \$2.2 million to \$2.6 million.

Brian Tolley refers to constantly rising costs of raw materials. We can presume, in the absence of any detailed comments, that the rises in metal markets overseas have considerable bearing on Tolley's business.

That may seem obvious, but it would help understanding of the company's problems, if there was some statement of the impact of imported inflation on group business, for example in relation to copper prices and so on.

The company's work in progress was almost static \$1,613,000 last year compared with \$1,519,000 in 1978.

Finished goods fell, probably due to a lower level of demand for the group's output, which may now have bottomed out. This item stood at \$4,774,00 on November 30, as against \$4,036,000 in 1978.

In view of the disappointing result for the year, the company may have kept its report to a low cost level. There is no statement of comparative figures over the years, and the recommended statement of current cost accounting figures is also omitted.

Tolley may be unable to afford the luxury of preparing CCA accounts (which shareholders should realise involve a cost well out of proportion to the two or three pages that appear in company reports), but an inflation adjusted statement on a company involved in such a difficult industry may be revealing.

I suspect the loss would jump dramatically, particularly as sales revenue was down on the previous year. The "cost of sales adjustment" on the published figures is likely to eat further into group returns (if we can talk about "returns" when they are negative.)

Market shows interest in heavy engineering

THE sharemarket has shown considerable interest in Cable Price Downer this year. The price rose 27.1 per cent since January, going from \$1.55 to \$1.97 last week.

A 27 per cent improvement is unusual in a company identified with the depressed construction and heavy engineering industries.

The company had expressed concern at the drop in workloads in this section of group activities, although the nature of the business can mean that profits still rise while the forward outlook suggests a decline in profitability.

Chairman Bill Steele, never one to pussyfoot when he has something to say or when he sees people failing to understand the obvious, was explicit on this point at the 1979 annual meeting: "I should like to comment about what has been construed in CPD's annual reports as over pessimistic predictions about future trading, particularly as it applies to our construction and heavy engineering activities.

"These parts of the group are staffed and capital asset-equipped to cope with a level of activity based on long-term contracts, a number of which may run over a three or four year period. When, because of economic conditions, long-term contracts fail to materialise and shorter term ones are not replacing the output of current completions, it is relatively simple to make early prediction of forward problems.

"The group does, as is noted in the accounts, quite properly adopt a conservative view of the taking to account of profits on long-term contracts. Thus we are faced with the dilemma that predictions about down turn in profitability can be made at the same time as substantial profits are brought to account on contracts nearing completion.

"Having given that explanation, I must say again that we are having difficulty in maintaining forward workloads in the divisions I have mentioned, although the effect of this will not necessarily appear in the accounts overall."

He then said that "I believe I can fairly say that the group's half year result will not be significantly different from 1978".

The shareholders were no doubt resigned to an interim report which would confirm that comment.

What a nice surprise they received when the company reported in November that the first six months profit was \$3,455,000, compared with the previous year's \$2,607,000 (a rise of 32.5 per cent), on turnover which went up \$14 million, or 16 per cent.

Stage two of the surprise was an increase in interim dividend from 7 cents to 9 cents, all payable from tax free capital profits for those electing to receive a dividend from that source.

Assuming that the final payment is maintained at last year's 9 cents, the total payout in respect of the March, 1980 year would be 18 cents.

On that basis the present price of \$1.97 gives a yield of 9.13 per cent, which for an individual on a marginal tax rate of 60 per cent is an effective return of 16 per cent, if the final dividend (again assuming 9 cents) is paid from revenue.

But the market might also see good future opportunities for a company which last year received 22 per cent of its turnover from construction and 12 per cent from engineering.

Someone has to build the many large scale developments and ancillary facilities which are being hailed as the nation's economic saviour in the 1980s. A group which builds airports, motorways, power plants, bridges, and can cast to most specifications should pick up a good share of the work.

Those projects are in the future. The company has to cope with the forward order problems which Steele referred to last year, but investors in equities for the long haul probably see benefits flowing to the group from the country's development.

The capacity to pay dividends from tax free resources will boost when the profit from the sale of shares in General Finance is brought to account.

That investment had a market value of \$788,000 at the 1979 balance date (taking \$1.35 for 583,855 shares) and seemed to be in the books at a cost price of around \$1.20 a share. The company should therefore make a capital gain of about \$640,000. The profit for the tax free dividends payable in respect of that year, plus an amount received after September 30, 1979 from the sale of a property.

Most of the capital gain from the property sale was used to pay the interim dividend, so the group should have around \$1 million in its "other capital reserves" (including share premium account) when it accounts for the General Finance share sale.

Nota: (a) Tha writar naither owns, nor has a banaficial interast in, CPD sharas, bul haa had profassional associations with tha company.

(b) Tha assessmant of BNZ Financa (*NBR*, April 28) inadvertantly dropped tha statemant that the writer naither owns nor haa a banaficial interast in that company's sharas.

O'Brien on business

Statistics and accounting in a simplified nutshell

GENERATIONS of law students found comfort in a series of small books titled *Nutshells.*

They had *The Law of Torts in a Nutshell, Roman Law in a Nutshell* (until that dreadful subject was removed from the course). *The Law of Contract in a Nutshell* and so on.

A noted New Zealand academic often said these works were "as much use as the amount of material which can be placed in the average nutshell – very little".

We now have new examples of the electronic age's desire to break down complex material into basic statements, and overcome the need to examine subtle aspects of the subject. Understanding the subtle aspects used to be known as the approach to wisdom.

The London publishing house, W H Allen, has a series of *Made Simple Books,* covering most of the alphabet from *Accounting* to *Woodwork*. The list includes *Journalism,* (appropriate), *Art Appreciation,* and *Modern European History,* both of which makes one wonder how simple can you get.

The idea has merit, if it overcomes problems people have in understanding technical concepts of modern compartmentalised knowledge. But it can be a trap if the detail is divorced from an overall picture of the subject as a whole, and the interaction of all details.

Business Statistics and Accounting, by Ken Hoyle and Geoffrey Whitehead, could lead readers into the trap, unless they remember that each subject heading has a relationship to others.

The book covers four broad areas: Business Calculations, Business Statistics, Accounting to Trial Balance Level, and Accounting to Final Accounts Level. The main headings are reduced to individual concepts. Each chapter finishes with "exercises". (To get the answers you have to buy another book, which seems a good business practice for the publishers).

The publication can be recommended for its simple description of the terms used in business finance, but concentration on individual descriptions, without considering the total, would be dangerous.

The section dealing with working capital is an example.

It is elementary that working capital is the amount left over when current liabilities (bank overdraft, amounts owing to creditors, short term loans, liability to pay current year's tax and so on) are deducted from current assets (cash, short term investments readily realisable for cash, stocks).

The authors say, correctly, that the working capital ratio shows the relationship between current assets and current liabilities. "Ideally a business should be able to meet all its current liabilities without hesitation.

"It is generally agreed that 2:1 is a desirable working capital ratio. This means that the external debts can be met twice over from the available current assets".

The comments are fine until one looks at stocks. These are usually shown in a balance sheet as the "lower of cost or realisable value", but many companies reach a crisis when a supposedly satisfactory working capital ratio is based on high stock levels even at "realisable value". The "realisable value" can change daily. Stock dumping at slashed prices is a classic method of overcoming a liquidity problem.

That needs to be remembered when reading the text. Business is conducted in a fluid, ever-changing environment, where theory and practice can diverge.

The breakdown of individual concepts from the total entity creates a problem which is seen in the authors' exercises on working capital.

The reader is asked to "state, with reasons, whether the following transactions would increase or decrease the working capital of a business; or would they have no effect?"

(a) Machinery no longer required is sold for cash, £1250.
(b) £2000 is paid for a lorry.
(c) £500 is received from a trade debtor.
(d) Stock costing £200 is sold on credit to a customer for £250.
(e) Stock is exchanged for office furniture £160.

At the risk of receiving letters from accountants suggest that (a) in[illegible] working capital; (b) [illegible] reduction; (c) [illegible] difference; (d) [illegible] raises working capital (assuming that the g[illegible] not sold on instalment[illegible] (e) reduces working [illegible] because furniture [illegible] sidered a fixed asset[illegible] it might easily be c[illegible] into cash at, or close [illegible] purchase level, while going stock reduces [illegible] assets.

The provisos take [illegible] of factors which are [illegible] opposed to rigid c[illegible] the theory.

The sale of machine[illegible] other issues, which [illegible] mittedly outside a [illegible] capital discussion, [illegible] they may involve depr[illegible] adjustments or d[illegible] balance sheet capital [illegible]

Subject to the [illegible] expressed, the book [illegible] guide for people [illegible] grasp the technical [illegible] company finance [illegible] introductory state[illegible] people in small b[illegible] who have difficulties [illegible] standing the financ[illegible] their activities.

Business Statistics and Accounting Made Simple, by Ken Hoyle and Geoffrey Whitehead, W H Allan, through [illegible] Group (NZ) Ltd, [illegible] $8.35.

Deregulati[on] of trucking

THE United Stat[es] voted overwhelming[ly] Government regula[tion] nation's trucking ind[ustry].

President Carter['s] "landmark" bill [illegible] crease competition [illegible] energy, improve s[illegible] small communities [illegible] (help) hold down fr[illegible]

The measure would [illegible] regulatory barriers to [illegible] new firms into the [illegible] industry and give [illegible] firms increased flex[illegible] price their services [illegible] first seeking Governm[ent ap]proval.

It would remove m[illegible] trictions that curren[tly] trucking officials fr[illegible] ing on their own wha[t] [illegible] carry, what cities to se[rve] what routes to take.

The Congressional [illegible] Office – an [illegible] agency of Congress [illegible] timated that the [illegible] save $5000 million [illegible] million a year and [illegible] .5 of a percentage p[illegible] consumer price index [illegible]

If passed by the [illegible] representatives the [illegible] join already approved [illegible] regulation [illegible] lines and banking.

Other [illegible] legislation covering [illegible] communications and [illegible] tion of paperwork [illegible] considered by Congress.

Manufacturing

Local boat-builders undercut by imported ships

by Rae Mazengarb

THE local ship and boat-building industry – struggling to remain afloat in the face of duty-free imported fishing vessels – will come under the scrutiny of the Industries Development Commission.

Actual terms of reference will be gazetted this week, but broadly, the commission is charged with:

- Inquiring into the state of the industry engaged in the manufacture and repair of vessels (other than pleasure craft);
- Looking at its potential development and contribution to New Zealand's economic growth, taking into account the interests of manufacturers, commercial and other users and the distributive trade.

The IDC will recommend desirable lines of development and the nature and extent of assistance – if any – by way of appropriate protective devices.

It will have "regard to New Zealand's interest in developing marine resources, specially fishing, within the 200 mile Exclusive Economic Zone, and any national strategic interest".

After submissions from interested parties a draft report will be circulated to the industry in July, to be followed by a public hearing on August 26.

The commission is expected to report by September 30 this year with a 10-year development plan for the industry.

The IDC's task will be to balance the pressing requirements of both the boat-building trade and with the developing fishing industry.

Members of the boat-building industry say the Government's decision last month to extend the duty-free import scheme for fishing vessels failed to recognise the local industry's plight.

The boat-builders said they agreed, in good faith, to allow the scheme to operate three years ago as a stop-gap measure to build up vessel numbers. For a period they were prepared to take up the slack in employment.

Not only has the scheme once again been renewed, but it has been extended to include second-hand vessels, a factor endangering an industry which is just as capable as its overseas counterparts, they said.

On the other hand, the fishing industry requires access to vessels at a price which will enable them to be competitive with fishing companies on world markets.

The availability of cheaper second-hand vessels from overseas is a way of allowing the local fishing industry to expand at a cost that can be borne.

Fishing industry sources pointed out that with the expansion of fishing into the 200 mile zone, the challenges facing the industry are vastly different to those of three yeasrs ago. They predict problems ahead if the expansion is constrained by high capital costs brought about by the need to purchase a more expensive although not inferior – local product.

A spokesman for a Nelson fishing company said the capability of the local building industry was as good as anywhere in the world – and the price had been competitive – but the problem would be the size of the market to keep the industry viable.

"We don't foresee any heavy demand from our point of view in the near future," he said.

John Primrose, managing director of a Gisborne boat-building company, said the situation was "disturbing" since his company – and most others – had not been receiving any inquiries lately because the fishing industry could bring boats in from overseas.

"They are bringing boats in and being granted an interim survey certificate for twleve months," he said, referring to the fact that many of those vessels did not comply with the New Zealand Marine Department's survey standards.

The Ship and Boat Builders Federation agreed three years ago to allow in overseas vessels for a year so that the industry could "tool up" and at the same time allow the development of a New Zealand presence in the 200 mile economic zone.

What started off as 12 months has now gone to three years. "We have all our staff and no orders for boat-building," Primrose said.

The companies are being forced to build on spec, or chase orders out of the country, he said.

But boat-building is a skilled industry. The people have been trained here, and it is feared that without work, the industry will lose these skills.

Ted Sims, another spokesman for the industry confirmed there were no yards with any major work on, as far as he knew. Employment was rapidly declining as a result and highly skilled people were going to Australia.

About 27 large vessels have been imported, and they have been cheaper, he said. But that was only because the local industry was regulated.

He pointed out other countries with competing industries have subsidies or tariff barriers.

Canada has a subsidy and a tariff. The United States has legislation which precludes the importation of vessels.

Australia's boat-building industry is also heavily subsidised. From July 1 this year a bounty scheme will operate whereby 27.5 per cent of the cost of the construction of vessels is paid by the Government.

A world-wide decline in fishing left vast numbers of second-hand vessels to be offered, very cheaply.

While the industry could understand that fishermen would find these boats very attractive, at the same time it was working to the detriment of the local industry.

"But this industry is technically up with the play – totally unsubsidised," Sim said. The policy is "vastly unbalanced" from the point of view of boat-builders. While they emphasise that they have no desire to penalise the fishing industry, they point out the boat-building industry is in dire straits.

"The decision by Government allowing the importation of cheaper, older vessels will create a great amount of work for the ship-building industry in repairs and maintenance and in bringing them up to survey standards.

But Fishing Industry Board general manager Nick Jarman said: "Additionally, if some of the recommendations previously made by the joint previously made by the joint ship-building/fishing industry committee to encourage the replacement of some of the older in-shore vessels it would increase the amount available for the New Zealand ship-building industry.

"Work should be going on in conjunction with the fishing industry and ship-building industry to decide on the optimum design of vessels which could subsequently replace the older second-hand vessels and a scheme should be devised whereby a subsidy or some other form of assistance is available for ship-building companies to enable them to move into standardised vessels and be provided with bridging finance as these are constructed," he said.

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Government administration

McLean argues threefold attack on inflation money supply control, wage and profit restraint

INFLATION is not as bad as it seems, argues Ian McLean, a member of the Government caucus (backbench MPs) economics committee.

It is high, he agrees, in this interview with Colin James, but not rising quarter-on-quarter. Current policies should lead to a fall later in the year — though wages and the state of world inflation pose question-marks.

McLean argues a threefold attack on inflation: control of the money supply, wage restraint and profit restraint. Longer-term, he sees increased productivity as "an easy, simple and cheap way out".

Underlying it all is a need for a change in the economic habits of 40 years.

McLean: The rate of inflation at present is high, but almost level.

In the middle of last year there was a surge in the rate of inflation with the top quarter at a 5 per cent increase. The last two quarters have been 3.8 per cent and 3.9 per cent.

Newspaper reports have been based almost entirely on the last 12 months and thus took into account the surge in inflation in the middle of last year, when there were some significant one-off effects.

They were: the big jump in the oil price, which as a percentage — and that's what counts — was higher than future ones are likely to be; the increase in export receipts, especially for meat, the local price for which rises, if the price rises overseas; and the removal of most of the remaining hidden subsidies in Government charges.

None of these are likely to recur. You may get other effects, like a sugar increase, but my guess is that most of the current pressures upward on inflation are of quite lower impact than the ones in the middle of last year.

The only question-mark remains about the wages round this year.

NBR: Setting aside the wages round, you would expect under current policies inflation to fall later in the year.

McLean: On the New Zealand internal situation, yes. I'd expect inflation over the next quarter or so to be flat or declining. But if the world-wide rate of inflation goes up there is no way we can insulate ourselves from it — except by increasing productivity so fast we can revalue.

But if it is flat, you are talking about a rate of 16 per cent plus at the rate of 3.8 per cent or 3.9 per cent a quarter.

McLean: I said it's high but likely to decline rather than go up.

How should inflation be dealt with?

McLean: You've got to look at at least three areas.

The first is expansion of credit, or money supply. New Zealand's expansion of credit at times has been too fast.

Some of it has been accidental because of increasing overseas earnings, which have expanded the money base. Some of it has been done quite deliberately in an attempt, successfully, to stop unemployment getting worse.

Are the existing restraints sufficient in your view?

McLean: I don't think they should be tightened further. Some firms and individuals in the economy are having extreme difficulty with the present limits.

I think if they were tightened any further they would have too much of an adverse effect on the rate of growth.

There is a lag between the introduction of a policy change and the effect on the amount of money in circulation.

There is a real danger of looking at the present situation and saying, "My gosh, we've got to screw things down," when what's happened is that the right measures have been taken but they're just working their way through.

The second area?

McLean: The second area is the rate of increase in wages.

If wages go up faster than the rate of inflation, without increasing productivity, there is one of two consequences: either increased inflation or increased unemployment or both.

So that unless we get increased productivity there is simply no way in which real wages can go up, without causing unemployment or inflation.

One of the theories of the causes of inflation is the "demand-shift" theory.

Essentially as I understand it, it goes something like this:

Some parts of the economy are using new technologies, new industries are growing rapidly. They can afford to pay higher wages and so by and large they will tend to do so.

However, if the older, static, less productive sectors of the economy increase their wages in proportion, this effectively causes inflation because their increases in wages are not matched by extra production.

If any trade union is able to get its wages moving up much more rapidly than productivity, their industry will die. There are a number of industries which have been close to death.

What you're saying, then, is that the initial effect is on inflation and the eventual effect is on the health of the industry itself? So shouldn't you concentrate on the good industries and get rid of the bad ones?

McLean: No. There's a better way to do it.

If each industry is able to negotiate wage rates which reflect what's happening to productivity in that industry, it means that an industry whose product is no longer needed by the economy, which remains static technologically, or the product which people don't want to buy, will go out of business because nobody is prepared to work there any more.

How do you propose wages should be held down to no more than inflation?

McLean: I am not proposing any specific remedies here; it would be irresponsible to do so.

You are not suggesting Government controls?

McLean: Government controls cause major distortions.

At times the Government has to intervene if there are wage settlements moving beyond what the economy can afford.

In every wage bargaining there is a third party to the proceedings, which doesn't sit at the table, and that is the rest of the community. This hidden third party has to be represented by the Government if settlements get out of line.

There has got to be as much free bargaining as possible. But it would not be responsible to say more, when there are major discussions are shortly to take place (McLean was referring to the tripartite talks which began on April 24).

And the third area?

McLean: The third area is in profits. If businessmen are able to set their own profit level and decide to take an increase in their incomes, regardless of increased productivity, that would be exactly the same as the situation with workers. Each can contribute to inflation equally well.

In a highly competitive business environment they are not able to do that because there is a market working, for example, in used cars, or fast food, or land agents.

But markets are pretty imperfect in a lot of areas. It's a small economy. There are many monopolies, some of which have to exist.

Are you suggesting price controls?

McLean: No. Price control simply does not work. Price control is simply a licence to produce inefficiently. Because all that anybody in price control work can do is look at your costs and allow a markup...

But aren't you just exhorting people to hold down prices without any mechanism for achieving it?

McLean: No. Firstly, where there is a natural monopoly, in other words a monopoly whose existence is desirable because it is the most efficient form of economic organisation, like electricity supply and a number of others, such as newsprint, or frozen food distribution, some form of price control is inevitable.

In other areas, I believe the best thing we can do is increase the degree of competition.

In other areas, I believe the best thing we can do is increase the degree of competition. Wherever there is a Government measure which gives some degree of protection, where a particular firm or industry is ripping off the public, the Government protection should be reviewed.

Is the Government reviewing such protection quickly enough?

McLean: There were quite significant changes made in the last Budget regarding import licensing.

There are a number of areas, not in the consumer field but in the producer field, where reviews or action have taken place. Transport licensing is being reviewed at present.

I would like to see us move a bit quicker, but there has been a lot of movement over the last year in this direction.

Do you think that that movement has contributed to holding down prices? Do you see any evidence of this yet?

McLean: No. I think we are only learning — learning to live in a more competitive environment.

Do you expect to see evidence within the next 18 months?

McLean: Yes. But old habits die hard.

New Zealanders still, when they strike a problem, say to the Government, "This is something you've got to fix".

Ian McLean . . . price control doesn't work.

rather than looking for opportunities which are in their own hands. For example, simply shopping where goods are cheapest, comparison shopping, where something is too dear, telling the shopkeeper it's too dear so that he gets the message and it's passed back along the distribution chain as goods pile up.

We've still got a long way to go, a long, long way to go. We are living with habits of 40 years.

What you seem to be saying is that we are stuck with a relatively high inflation rate for some time yet. There are certain things we can do about it, but . . .

McLean: I don't believe that in the present world situation we should try to get back to the sort of inflation rate of the 1950s and 1960s — to 5 per cent. The social cost would be too high.

But there is an easy, simple and cheap way out, if people are willing to alter their attitudes and that is through increased productivity — and this is a challenge more for management than for unions.

A 20 per cent increase productivity going a third to the company, a third in tax and a third to the workers represents a real increase in the standard of living. It is not inflationary.

Isn't there an easier way out — the soft option, simply to get used to 16 to 20 per cent inflation?

McLean: At 16 to 20 per cent the situation is too unstable. People think prices are going to go up and so put their markup up a bit further and it is too easy to drift into hyper-inflation.

Are we in danger of drifting into hyper-inflation?

McLean: No. I don't think so. There is control on the money supply and any wage settlements that move too significantly above the guidelines will be held.

But there are other disadvantages besides instability.

It represents a transfer of income from those who are on fixed incomes to those who are protected against inflation.

It means distortion of investment patterns, where investment goes into those sorts of assets which are a good hedge against inflation rather than those which are most productive.

Eighties Trade Fair
May 9th to 18th, 1980
Promoted by the Wellington Show Assn Inc

Revived concern for secure, quality insurance

Melbourne correspondent

THERE are signs that the steep three year-old slide in insurance premium rates on the Australian market is about to go into reverse.

According to Melbourne broker, Stenhouse Reed Shaw, people are showing a revived interest in the financial security of the underwriters with whom their insurance is placed.

Earlier this year the Queensland Supreme Court ordered the winding up of the largest Australian insurance company ever to crash. Its collapse has been attributed in part to the keen competitive rate-cutting war prevailing. It offered rates too low to cope with its investment and loan problems.

In addition to this current casualty there have been at least four other significant insurance companies to cease trading since 1977, when the Insurance Commissioner warned that the Insurance Act did not allow him to move quickly enough if he considered a company was heading for trouble.

Stenhouse Reed Shaw says the public is beginning to appreciate more fully that authority from the commissioner is not an iron-clad guarantee of an underwriter's financial stability. Australians, it seems, are taking a harder look at the overall financial health of specific underwriters. The Melbourne broker says it is this process which is to some extent restoring the balance of forces in the insurance equation by making conservatism a marketable commodity.

Among those to take a stand against the rate-cutting war is South British United Insurance which has increased its insurance premiums by between 15 and 25 per cent.

A spokesperson for the New Zealand-based company said it was the responsible alternative, taken in the interest of its policy-holders, rather than offer cheap insurance at the expense of doubtful quality of overall service and protection.

He said the company was not prepared to continue towards eventual doom, as others have done, by continually lowering the rates and standards of service in the face of market pressures from companies practising cash flow underwriting.

Paradoxically another intimation of a return to higher rates is the trend towards increasingly lower premium rates in the major insurance markets of the world.

This may seem on the face of it contradictory, said Stenhouse Reed Shaw.

If the world markets are all going lower, won't Australia, just be carried along with them? The answer, it says, is probably "no".

For three years Australia has been an anomoly in the world insurance pattern, but reinsurers have been prepared to tolerate low rates in order to retain its business. Although they have complained vigorously about the "uneconomic" Australian market, they have nonetheless been able to absorb any underwriting loss without too much discomfort, because of the relatively small proportion of world insurance business Australia represents.

The Melbourne brokers argue that reinsurers cannot afford generosity on the market when all the major markets of the world are moving lower. They are likely to try more resolutely to prevent rates going to uneconomic levels in any market.

Another factor likely to influence Australian insurers away from the rate-cutting war is the possible decline in equity values.

The resulting reduction in assets would compel some underwriters to look more sharply, than they have done for some time, at their liquidity positions. It should not be overlooked, says Stenhouse Reed Shaw, that the prevailing spasm of rate-cutting is really the first experience underwriters have ever had of unrestricted com- tion, having been thick... the past from the ... knowledge of what a good (or bad) rate might be.

Now they know the ... erence (which in some ... has meant liquidation) ... their collective behaviour ... in future be less impetuous.

It warns that if this ... should prove wrong, ... premium rates continue ... decline significantly, it ... evitable that neither bro... nor underwriters will in... be able to provide the s... dards of service the insur... Australia accept as norm...

The stand made by S... British United is a sign ... resistance among the ... to any further rate-cutting ... and of a renascent conc... the quality, rather than ... price of Australian insu...

Management honeymoon: some of the bloom has gone

THE honeymoon for Australian management may not be over, but some of the bloom has gone, and there are more challenging times ahead, according to Monash University's senior lecturer in administration, Peter Bowden.

Addressing a recent seminar of the Australian Institute of Management, he said the 1980s would see Australian business managers subjected to increasing external and internal pressures.

Ninety per cent of Australian businesses could not expect the same strong growth and high rates of expansion of the early 1970s — a view on which Australian economists and business forecasters were "virtually unanimous."

Under these economic conditions, where profits were harder to make, business would be more competitive and would not provide as wide a range of career opportunities as some managers have experienced in the past.

In addition a policy of restraint in public spending was likely, whichever political party held office, with consequent lack of expansion and managerial opportunities.

Another major area of concern to Australia's business managers in the 1980s will be South-east Asia.

Many observers see the possibility of growing exports to that region's blossoming economies as a panacea for the continual relative decline of Australia's manufacturing industry.

But Bawden said that such optimism should be tempered with considerable caution.

For a number of reasons, he did not believe that Asia offers such easy opportunities.

The high-technology countries, such as Japan and increasingly Korea and Taiwan, would win the major Asian markets before Australia did, because there would be few manufactured goods in which Australia would have a competitive edge.

In any event the high import costs of oil would cause a slow-down in Asean's economic growth rates, reducing its capacity as a market for Australian goods.

Furthermore, Au... own high tariff walls ... cause Asean countries ... tinue and even increase ... own trade barriers.

Within Australia the ... failure of highly protec... dustries to earn high ... would induce senior e... tives and planning offic... think seriously ... diversification into othe... dustries or other geogra... markets.

Trans-Tasman freight rates an obstacle to trade

by Rae Mazengarb and Melbourne Correspondent

SURVEYS of businessmen on both sides of the Tasman show that sea freight rates are considered the major impediment to any substantial increase in Australia-New Zealand trade.

A report by the Australia-New Zealand Businessmen's Council says there is little point in talking of a wider trans-Tasman economic association if transport factors continue to be seen by businessmen as an obstacle to such expanded commerce.

The trading relationship is an important one: both countries are significant trading partners for each others.

- Each country is the other's single largest export market for manufactured goods;
- New Zealand is overall the third largest Australian export market;
- Australia is the most important source of New Zealand imports — and is overall the fourth largest New Zealand export market.

According to the New Zealand Institute of Economic Research exporters to Australia see transport costs as the most significant barrier, while such costs are ranked third by New Zealand firms importing from Australia.

Both importers and exporters are critical of the level and structure of freight rates, the frequency of sailings, and the suitability of available equipment.

The businessmen's study found that trans-Tasman sea freight rates are higher than those on other routes, both international and Australian coastal.

It has been possible to charge relatively high rates on this route because of import barriers to entry by new competitors.

But these relatively high rates have not been reflected in high rates of returns on funds employed by the major carrier on the trans-Tasman route, the Union Steam Ship Company (USS), possibly because profits have been absorbed by the cost of labour and sea-going equipment.

The Union Steam Ship Company may have to re-engine its two roll-on/roll-off vessels in the trans-Tasman trade because of massive increases in the price of gas and oil.

The company had asked for tenders, but no decision would be made for about four months, managing director John Keegan said the other day.

When the two ships were built in 1972, fuel represented only about 13 per cent of total running costs; it now represented about 40 per cent of costs, Keegan said.

Cost of converting the gas turbine-engined vessels would be about $15 million, including the cost of chartering replacement vessels for the period, he said. Conversion would have to done off-shore.

Management outlined the operation of Union Shipping in both its international and coastal services as a special presentation to the media, highlighting the particular problems of the trans-Tasman trade.

With the Union Steam Ship Company of New Zealand having a major share of the trans-Tasman route, much of the study necessarily concentrates on its role and activities. But the Australia-New Zealand Businessmen's Council acknowledges the assistance of USS in drawing up the report and stresses that the emphasis placed on it should not be misinterpreted as an attempt to "victimise" USS.

That company's fixed costs per unit of cargo carried could be comparatively high due to lower turnaround times in Australian ports and to delays imposed by maritime factors outside the company's control, such as industrial disputes.

The chronic wharf disruption in Australia last year contributed to the loss of a large number of ship-days, executives said. (Each lost day is said to have cost the company more than $10,000.)

The company has also lost ground in some bulk cargo areas, specially steel, gypsum and forestry products but the company is determined to recover as much as possible "through a system of competitive rating," Keegan said.

"We are in fact no more expensive, but less expensive, than many who operate both in this field and further afield," Keegan said.

Marketing manager Paul Romanos pointed out that freight costs per tonne-mile between Australia and New Zealand were only 6.7 (compared with 8.7 between Auckland and Lyttelton, 13.8 between Melbourne and NSW and Tasmania and 37.6 between Wellington and Picton).

Figures are based on moving containers.

Nonetheless, says the study, these factors do not explain the difference between USS rates and those of Australian coastal services.

Between September 1978 and March 1979 the average transport margin was 15.8 per cent of fob values of Australian imports from New Zealand. On fob values of imports from all other countries in the same period, the margin was only 11.8 per cent.

P J Lloyd, in 1976 concluded in *Economic Relationships Between Australia and NZ*: "Since the distance transported for goods from New Zealand is a small fraction of the rest of the world, this higher margin is remarkable."

A major conclusion of the study is that greater competition on the trans-Tasman route would lower sea-freight rates significantly.

At present the entry barrier to foreign ships is the policy of New Zealand maritime unions. They believe that New Zealand seafarers have a right to jobs on ships carrying goods to and from New Zealand, and these jobs should be shared only by seafarers of the country at the other end of the route.

Hence trans-Tasman ships can only be manned, according to this policy, by Australian or New Zealand crews.

It is a policy supported by both New Zealand waterside workers and Australian maritime unions, forming an effective barrier to competitive foreign shipping — and lower sea-freight rates.

Opportunities foregone by these restrictions on foreign entry are considerable since a large number of cross-over vessels are excluded.

The study says that further entry of Australian ships into the trans-Tasman trade is also restricted, by maritime union agreements on shares of future growth, while the lack of entry of more New Zealand ships could be due to high costs of handling some cargo, and financial barriers.

These factors, it concludes, will continue to inhibit further growth of Australia-New Zealand trade.

Marketing

Basic skills outlined in local publication

by Grev Wiggs

TEXT books on business subjects are often imported and generally expensive. So it is pleasing to record the publication of a locally written and printed volume on the subject of marketing.

The book *Marketing: Focus on Tomorrow*, printed by Geo Deslandes is written by Alastair D Pain, a tutor in Management Development and Marketing in the Management Centre, School of Administrative Studies, Wellington Polytechnic. He is a graduate in industrial psychology from Canterbury University.

Pain saw the opportunity for a concise treatment of the subject (it runs to only 76 pages) to do double duty as a manual for students and as a quick introduction to the subject for businesspeople.

Any book that helps to broaden knowledge on marketing is now timely because the skills of the marketeer have never been in greater demand, at home and abroad.

Cabinet Ministers are becoming increasingly prone to lecture the business community on the desirability of harnessing marketing expertise, indicating that their speech-writers are at least keeping an eye on the business press.

It is a pity that the boards of so many local companies, the fortunes and existence of which are dependent on the skills of marketing people continue to add to their ranks lawyers, accountants, retired civil servants and bankers — all honourable people — with nary a marketing person admitted.

A well-esteemed director of a public company, the financial well-being of which rachets directly with advertising volume, recently told me that he was never influenced by advertising in making a personal buying decision.

Because of this need for a wider comprehension of the marketing function, this book is recommended as a purchase for every company library shelf, on the grounds that it should be compulsory reading for management personnel.

It purports to be "a handy introduction to all the basics of marketing" and it is.

It sets out the fundamental concepts embodied in our conventional marketing wisdom: research, product adoption, curve and life cycle, branding, pricing methods, advertising and so on. It pronounces them as absolutes, leaving little room for challenge or debate.

It is probably necessary to know the rules before you can break them with flair and brilliance as the top creative marketing people can occasionally do.

The book provides the framework for the consideration of the sales proposition in marketing terms. For experienced marketeers it functions as a handy check-list on marketing matters.

Having recommended the book, we must confess to a feeling of disappointment in the author's lost opportunity to relate his text more closely to the local scene. The occasional allusion to a contemporary facet of our country's commercial or social life gives point and clarity to the argument but such references are few and far between.

To be fair, the author has given us a 44-page companion volume called *Marketing Case Studies*.

These outlines of marketing histories draw no conclusions and are intended to provide material for student discussion. Some marketing people may be disturbed not by the contents of the book but by what has been omitted.

For example, early mention is made of the concept of the "product life cycle" which is outlined as: "Introduction of a really new or an established product with new features or accessories. Growth and market acceptance. Maturity and probable saturation. Sales decline and possible abandonment or addition of 'new' features to 're-new' the product".

The life cycle concept provides an important warning sign to any firm that a successful product is not necessarily an all-time money-maker. If you accept it, you still need to explain why Edmond's Baking Powder is a successful product a century after its introduction, and how Lux toilet soap and Bell tea — our grandparents' favourites — and that relatively upstart newcomer, Coca-Cola, manage to survive with respectable market shares decade after decade.

There is a short but informative chapter on brand naming. It states the reasons for branding, the requirements for a good brand name, research methods used to test potential names and more. It does fail to mention the important qualifications for registration of a brand name in New Zealand or the desirability of registration or design copyright. The best name in the world is vulnerable without legal protection.

Although mail order gets a mention, direct response advertising does not. We are not told about couponing, consumer contests, sampling and other everyday sales promotion activities.

The most serious omission is the failure to acknowledge that marketing is essentially an inventive process. It requires an input of good ideas and creative thinking. It is not something that arrives mechanically at an answer by following set procedures.

In advertising, for example, the need for creativity is very real when smaller companies compete against big advertising budgets or where product differences are slight and the brand image must become potent.

It can be argued that in a manual as small as this, some curtailment of material is essential. In that case, it can be suggested that some of Pain's digressions on pollution and land usage might have been omitted in favour of more directly relevant material.

An able editor — and a competent proofreader — would have been of considerable value to improve the book's form. Pain has some unusual ideas about punctuation and about structure. It tends to be confusing. What does one make of a sentence that reads: "... get into a cycle that leads ... to less to produce anything ... within the first place" ... in the full context, it is not easy.

In spite of the criticism, it is a book most companies could do with. The more accountants know about marketing, the better for all of us.

Industrial decline

AMERICAN industrial production declined by an estimated 0.8 per cent from February to March, the sharpest drop in the past 11 months. And the Federal Reserve reported that revised data indicates industrial production in February declined 0.2 per cent, instead of rising slightly as reported a month ago.

Output of consumer durables was down 1.4 per cent from February, with home goods — mainly appliances, carpeting and furniture — declining 1.7 per cent. Autos were assembled in March at an annual rate of 7,100,000 units, down slightly from the February rate and about 25 per cent below the rate one year ago.

Tourism

Frustrated developers get go ahead on skifield

"THE lunatic fringe of the environmental movement," is how Mount Cook Group's and manager Bob Forward describes some of the people who have frustrated the multi-million dollar development of the skifield at Rastus Burn near Queenstown.

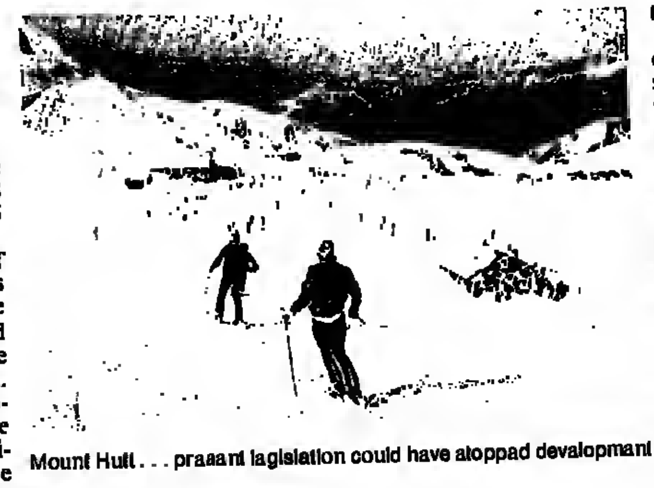
Mount Cook broke free of the red tape and town planning jungle last week when the Planning Tribunal found in favour of the proposal for a skifield and access road. Rastus Burn, near Queenstown is on the western end of the Remarkables across from Coronet Peak.

The proposal first lodged with the Lake County Council in 1973 was the first major development proposal to be enmeshed in the new environment legislation of the Labour Government.

"When I first lodged the application with the council for planning consent, I thought we would have the field and road built in 18 months in time for the 1975 skiing season," Forward said.

"Nobody had ever heard of environmental impact reports and audits then. To date the delay has cost us $80,000, and the cost of the field has gone from $1 million to $3 million.

"The people who have opposed us right up to now are the lunatic fringe of the environmental movement. Some are Government employees — public servants who have gone against what their own departments recommended. If their own departmental heads can't bring them into line, then I think the politicians should".



Mount Hutt . . . present legislation could have stopped development

Mount Cook had had its eye on the Rastus Burn basin for a skifield. It is 300m higher than Coronet Peak and has more reliable snow and a longer season.

The major difficulty was an access road, to be built across slip prone slopes which required extensive drainage work and restoration of the immediate environment.

While the proposed skifield was in the planning mire in 1978 and 1979 Mount Cook suffered poor seasons at Coronet Peak. As New Zealand's best known ski area, specially for Australians, it had serious repercussions for the entire industry.

The main objections to Rastus Burn were the damage a road would do to the delicate sub-Alpine and Alpine environment; the road would disfigure the scenic attraction of the Remarkables; there was no guarantee that Mt Cook could complete the project — leaving a half-built road and further pressure on the various facilities at Queenstown with the influx of thousands of skiers would result.

Mount Cook has overcome the objections to the satisfaction of a majority of members of the Planning Tribunal.

The company can take heart that seven years to get planning permission for a ski-field is not too bad by American standards. There, millions of dollars worth of developments are stymied by environmentalists.

There has not been one major new development on public land for at least seven years because of the way in which environmentalists can involve themselves in a Federal Environment Impact Statement. The joint planning process in Colorado for example now ensures a planning time of 58 months.

Existing commercial skifields like Mount Hutt, Tekapo and Treble Cone can at least extend operations, even if it takes months of haggling with the Forest Service, or the Lands and Survey Department to get new buildings. It is doubtful that Mount Hutt could have been built under the present legislation.

One solution is to use private land, and that is what is quietly happening near Queenstown.

The Southland retailer H and J Smith is backing a development at Cardrona, between Queenstown and Wanaka. The application for a skifield designation was promptly approved.

Forward says work will start on the Rastus Burn access road immediately. The field should be ready for the 1982 ski season — nine years after Mount Cook lodged the planning application.

Residents jolt breweries out of cosy pub dream

by Belinde Gillespie

THE mirage of the cosy neighbourhood pub has finally flickered out in the deserts of suburbia.

Lion and Dominion Breweries have publicly withdrawn their efforts to establish small, friendly drinking spots in areas where residents are happy with the dream but hostile to the reality of a pub in their midst.

The reasons given by the breweries are objectors who can delay building of premises for years, town planning difficulties and competition from sports club licences, which are providing cosy drinking surroundings through the back door.

While licensing and planning decisions favour small taverns, no legal changes have been made so they can be implemented, and residents remain convinced that the place for a pub is anywhere but in their street.

The drift from pub to club and more drinking in the home is confirmed by statistics.

Only 25 per cent of the drinking is now done in taverns, according to the Alcoholic Liquor Advisory Commission (ALAC), and the trend away from the pub began before the economic recession and the proliferation of ancillary licences.

The British pub proliferated in quaint villages "long before there was such a thing as a town planning department," said Morris Robertson, manager of Lion architectural services, speaking on "the impossible dream" of the neighbourhood pub.

Historically, the village-school-church-pub relationship worked well, until the development of motor transport encouraged the "separation of the various elements of living".

But we are looking again to integration, Robertson said, and seven out of 10 people favour the concept of the neighbourhood pub – provided it's in the next man's neighbourhood. Supporters are often guarded – if it turns out to be a booze barn, "who wants to be responsible for unleashing Sodom and Gomorrah on the neighbourhood?" he asked.

The silent majority, which doesn't voice its opinion, is flanked by a vociferous minority which opposes "any form of outlet anywhere", he said.

The important prerequisites to putting up a pub are getting a licence, and obtaining town planning approval. Licensing controls date from 1881, when the first act aimed at reducing the number of pubs was introduced.

The "restrictive era" followed, until 1962 when tavern and restaurant licences were introduced.

Although the law allowed for the redistribution of licences from areas of plenty to areas of need, it did not work well in practice.

This, coupled with the no licence district phenomenon meant that vast urban areas of New Zealand were developed with no liquor facilities.

That lack was highlighted when 10 o'clock closing came in, bringing a shift to a pattern of evening drinking and an apparent need for pubs in residential areas.

The Licensing Control Commission can hold public hearings in any area to determine whether extra licences are needed, then make authorisations and call for applications accordingly.

Before applications are invited, there is a lengthy procedure of polls, inquiries, appeals and counter appeals, to establish whether licences are wanted in the area. And the commission has learnt to refrain from calling for applications until town planning matters have also been resolved.

"These steps can also take several years to reach conclusion," Robertson said.

"The path to a new tavern or hotel is so convoluted that it is rare that any proposal succeeds. In 1978 the licensing commission authorised seven new licences for Eastern Auckland – the same seven that it had authorised seven years earlier, no progress having been possible in the interim".

An entrepreneur who wants to take advantage of a licence authorisation, must first acquire a site. According to Robertson's arithmetic, after a minimal five-year delay for polls, appeals and objections, and a further construction period of a year, the investor will have lost around $90,000 on an original outlay of $100,000 for the site, plus substantial legal fees.

"No wonder the small businessman, desirous of opening a neighbourhood pub gives up the ghost at an early stage," he said.

Meantime, alternative drinking places have emerged. Clubs with ancillary licences – "*de facto* taverns have sprung up in the most residentially desirable neighbourhoods", he said. They are not known as taverns, but as rugby clubs, squash clubs and tennis clubs and "to date their drinking hours have been restricted but all the signs are that the state is but a temporary one".

The rise of the chartered club, with a selected membership and broad subscription base, has also diminished the clientele of the tavern.

"If in terms of town planning, clubs are compatible neighbours, why not small, well run neighbourhood taverns?" Robertson asked.

The licensed restaurant has further eroded the popularity of the pub. In the 18 years since the law allowed us to wine and dine in a restaurant, and the three since the bring-your-own licence was instituted, the number of restaurant licences has mushroomed.

Licence requirements are far easier on the restaurateur than on the tavern operator, Robertson suggested.

The latter has to open his premises 66 hours a week, of which 56 see few customers. The operator must maintain a public bar, or at least a bar which sells at controlled public bar prices.

The restaurant can open at time of peak demand, set its price structure to the market and the scale of operation – it is governed by commercial viability – not by "artificial constraints" applying to a tavern licence.

"A tavern operating set hours and prices pitched at the market could be viable with a customer capacity of less than 100," Robertson said.

The relative ease of establishing a restaurant has led to another form of de facto tavern, where seven-day-a-week drinking may go on in the best locations and even in no-licence areas.

The Licensing Commission itself has called for a complete overhaul of the licensing laws. Robertson urged also review of the Sale of Liquor Act in correlation with the functions of the Town and Country Planning Act.

"The hesitancy and muddled thinking that epitomises liquor legislation is almost certainly related to the fact that voting on this legislation, like that for abortion, is on the conscience vote principle ... Members of Parliament cannot be expected to produce rational legislation on an individual basis" he said.

Winemaker reaps bitter harvest

by Warren Berryman

FRANK Yukich, of Penfold Wines, is reaping a bitter harvest of retribution from fellow winemakers sown when Penfolds opposed the new regulations allowing tap water in wine.

After a spate of intense rumour-mongering against his company, Yukich was visited by police and Customs Department officials looking for smuggled grape juice.

Rumours had been circulated in Auckland that Yukich had smuggled in prohibited grape juice or grape concentrate from Australia to make up Penfold's shortage of grapes. A figure of 1 million litres was mentioned.

Customs and police visited Penfolds winery, acting on a complaint laid by a competing winemaker.

Yukich said the whole affair was crazy, pointing out that 1 million litres would fill 1000 drums – not an easy cargo to get past a Customs Department skilled at detecting even the smallest pack of heroin or a Swiss watch.

Yukich acknowledges that Penfold is short of grapes. But he denies smuggling.

He also denies having applied for another import licence to import grape concentrate from Australia.

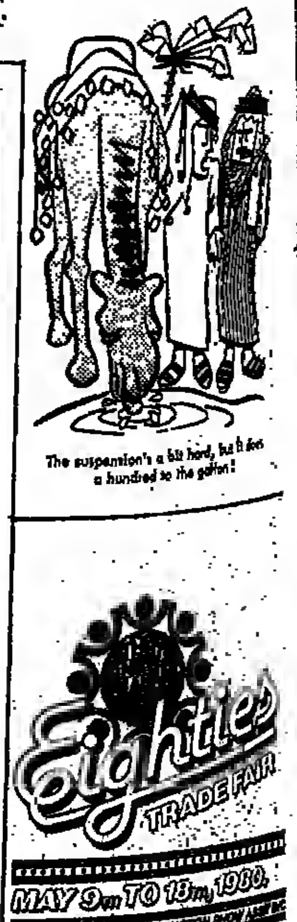
Yukich said he did import 2000 52 litre stainless steel casks from Singapore. But these were empty and without bungs, he said.

Yukich raised the ire of his competitors in the wine industry by opposing the new regulations allowing watered wine. Now that local wines had emerged from the plonk syndrome and gained some prestige, lowering standards would be a retrograde step, Yukich argued.

Yukich favoured the importation of grape juice or grape concentrate to make up the grape shortfall rather than the addition of tap water and sugar.

If this was not possible, Yukich suggested it would be better to import wines to meet consumer demand for the three years it would take to match grape production with demand.

Yukich is far from happy with the way Government and the Wine Institute hatched up the changed regulations. He has called for a commission of inquiry with consumer interest represented alongside the interest groups.



The financial shackles of modern soccer

THE multi-million pound business that is soccer in Britain is in deep trouble. As the crowds dwindle and clubs sink further into debt, the management of top clubs are under attack for their high spending on the purchase of players and their reluctance to modernise cold grey stadiums. But a closer examination of the state of the game shows that it is shackled by its financial structure as much as by the lack of imagination at boardroom level, as Peter Barnard of the *Financial Times* reports.

SOCCER is a multi-million pound business in Britain. But if all the money owed by the 92 clubs in the English Football League was called in tomorrow, the bankruptcy courts could sell tickets for seats.

The traditional winter game is broke. Doom-watchers have been saying it for years, but today there is hardly a club in the country that could convincingly claim to be a viable concern.

Asked to list their assets, most clubs would start with a goal-keeper and finish with a winger. Many clubs don't own their grounds and many of those that do have long since mortgaged them.

Yet only last month one of the biggest and the most famous clubs, Manchester City, which was in danger of being relegated from the First Division, paid £1.25 million for a young forward who is unproven as an international class player.

What is the root cause of soccer's malaise, a crisis which surely cannot survive the 1980s? And is there a cure?

In some respects, the current situation has been brought on by factors which tend to confirm the overseas view of Britain. Soccer is the country in microcosm.

It is run under archaic rules (directors must not be paid, dividends must not exceed 10 per cent), it is profligate in the face of a need for austerity, and it has done almost nothing to keep or attract customers – another million of whom are expected to give it up this season.

The success of soccer in the United States is due partly to the avoidance of what goes on in England.

Phil Woosnam, the Welshman who presides over the burgeoning North American Soccer League, would have failed miserably had he tried to impose on English soccer ideas that are meat and drink to the blossoming American game.

Take some of the American ideas and attitudes.

Cheer leaders? A few clubs have tried them in England, much to the derision of supporters.

Family stadiums? All very well for Yanks says your British club chairman, but this is a man's game. Standing in the rain, queuing for lukewarm tea, queuing to get in, queuing to get out ... these things are standard practice at most English grounds.

Sponsorship? Ah, now there is a sore subject. It also provides a classic example of what could be done to financially rejuvenate English soccer.

Kevin Keegan left the Liverpool club to join Hamburg in Germany three seasons ago for a variety of reasons, of which money sorely figured significantly. The reason why Hamburg was able to offer Keegan three times his Liverpool salary was sponsorship.

For some years, Hamburg has been sponsored by Hitachi, the Japanese conglomerate, to the tune of some £250,000 each year. Next season, after much controversy and tut-tutting, Liverpool will receive sponsorship. Players will carry the name on their shirts in return for about £100,000 a season. The sponsors? Hitachi.

Liverpool's bold step into sponsorship will be emulated by others. So will the Coventry City Club's trail-blazing in the area of spectator comforts and money-raising schemes. But this kind of progress is uneven and will remain so until the financial structure of soccer clubs in England is radically changed.

Take Manchester United, the most famous club in the world. Its annual turnover is millions of pounds.

A home match watched by 50,000 people can bring United as much as £80,000 in gate receipts alone. Yet until January 1978, United's issued share capital amounted to just £6369 and its authorised share capital was just £15,000.

This was changed at a stroke. The club had a special 208-for-one rights issue, meaning that each existing shareholder was entitled to buy new shares at £208 for each one already held. That increased capitalisation to more than £1 million.

Not that this move did much to increase the number of United shareholders.

The late Louis Edwards and his family own most United shares and this is the pattern elsewhere.

Arsenal's boardroom has contained a member of the Hill-Wood family for nearly 60 years. That family, together with the Bracewell Smiths control more than half the issued share capital of £5849.

Soccer club share certificates are as jealously guarded as the Dead Sea Scrolls. Indeed, there are only two City of London jobbers who regularly deal in them and one, Tony Jenkins, describes the shares as a "loss-love."

Jenkins says people buy them out of sentiment. This, in the nature of things, makes for plenty of buyers but very few sellers. That, in turn, means that when shares do change hands, they are often at very high prices.

In 1971-2, when Arsenal won both the First Division championship and the FA Cup, its £1 shares changed hands at £135 – but buyers had little return apart from the satisfaction of ownership.

Rights issues, sponsorship, better grounds, a co-ordinated effort to reduce transfer fees, more lotteries (some of the small clubs already make more money from lotteries than they take at the gate) – all these need looking at if soccer is to survive in England.

Unless the English game's underlying financial position is improved – and soon – soccer will become a sporting jet engine – invented by the British, exploited by foreigners.

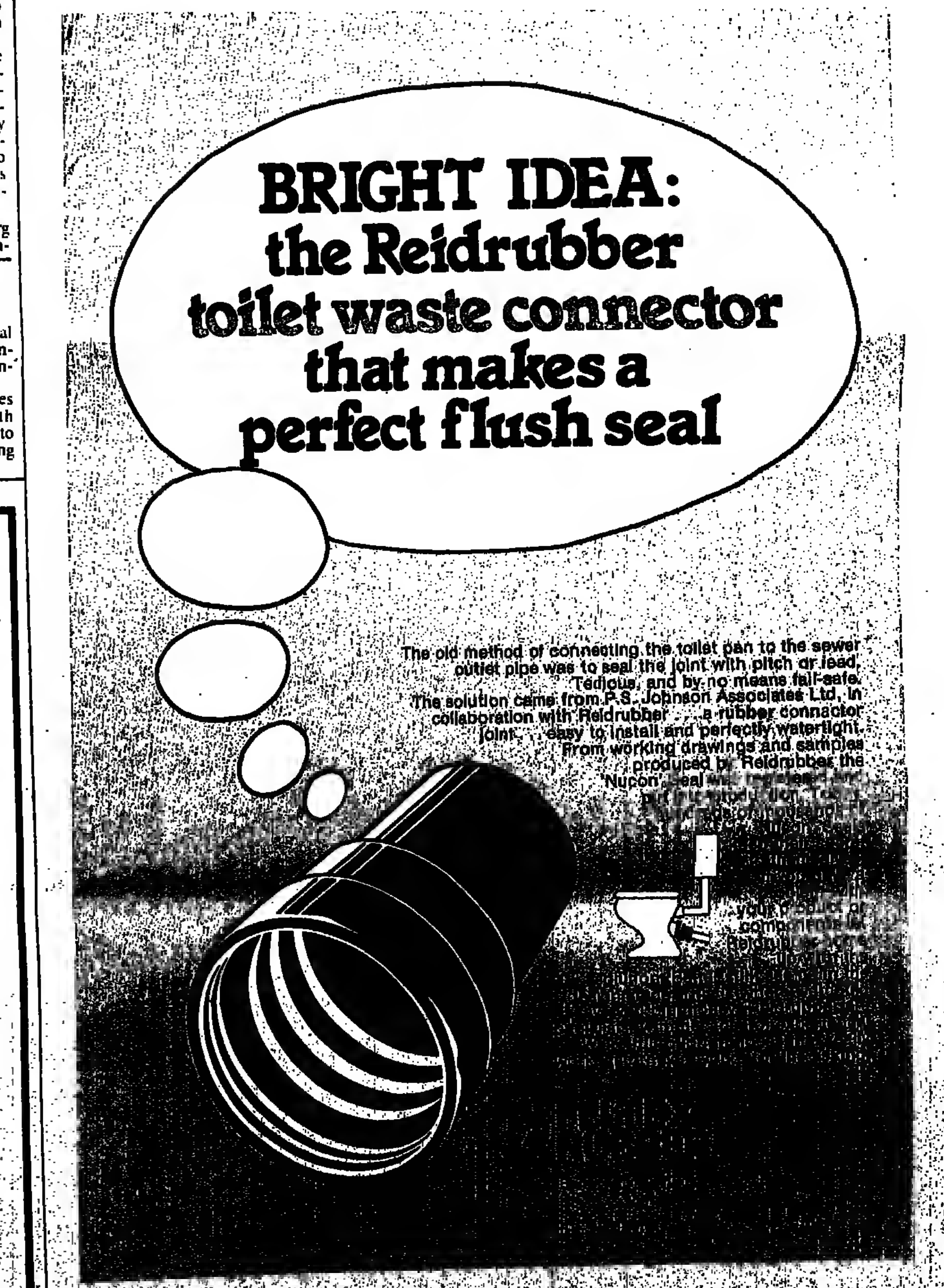
Nosedive for air traffic

GROWTH of North Atlantic air traffic is down to 5.7 per cent – the lowest growth rate on record except for the recession years of 1974-75.

IATA figures show that scheduled passenger traffic rose by 16 per cent during 1979. But charter traffic declined by 31 per cent.

The IATA figures for total air cargo showed a 60/40 imbalance of freight in the United States favour.

The passenger flow figures indicated the greatest growth in tourism was from Europe to the United States, leaving Canada out in the cold.



BP hunt for oil tycoon brings landmark decision

by Jack Hodder

TEXAS oil tycoon Nelson Bunker Hunt said that he wanted to be remembered for nothing when he died. Sadly for him, his name will be eternally linked not only with the great silver crash of March 1980 but also with a lasting (albeit reluctant) contribution to New Zealand jurisprudence in the same month.

That contribution is Mr Justice Barker's landmark decision on the enforcement of foreign judgments and the issue of injunctions prior to judgment to restrain disposition of a defendant's assets in *Hunt v BP Exploration Co (Libya) Ltd* (Auckland supreme Court, A 1418/79: March 21 1980).

The saga begins in Libya with Hunt's obtaining of an oil concession. he then entered into a contract with BP(Libya) whereby it undertook to finance the exploration and development of the concession in return for half of all oil produced plus three-eighths of Hunt's half share of the oil until such time as it had recovered (from Hunt's share of the oil) the equivalent of 125 per cent of its previous expenditure.

The good news for the parties to this contract was that the concession covered a huge oil field. This came on stream in 1967 after the expenditure of millions of dollars by BP(Libya).

The bad news for the parties was that the Libyan Government decided on some unilateral renegotiating of oil concessions and unceremoniously kicked BP(Libya) out of Libya in 1971. (Hunt hung on a little longer, until 1973).

BP(Libya) was predictably distressed by this turn of events and particularly by the fact that its share of Hunt's oil had amounted to no more than 45 per cent of its development expenditure.

It then issued proceedings against Hunt in Britain seeking the award of a "just sum" out of the benefits received by Hunt under the contract under the (UK) Law Reform (Frustrated Contracts) Act 1943.

Mr Justice Barker ... enforces foreign judgement.

In March 1979 a British Court Judge gave judgement in those proceedings in favour of BP (Libya) for a sum of $33,890,871.

An appeal has been set down for hearing in June. Meanwhile, Hunt has declined to discuss with BP(Libya) just how its judgment would be satisfied.

He apparently has no significant assets in England and there is no provision for enforcing British judgments in Texas.

He does, however, have assets in New Zealand, including a thoroughbred stud property in the Waikato (said to be worth less than 3 per cent of the judgment sum). And New Zealand does have the Reciprocal Enforcement of Judgements Act 1934.

Last October, on the unilateral application of BP(Libya), Mr Justice Barker registered the English High Court judgment in our Supreme Court under the 1934 Act.

At the same time he granted BP(Libya) what is known as a "Mareva" injunction, freezing all Hunt's New Zealand assets.

In February this year there was full argument in the Auckland Supreme Court as to whether those orders should be set aside.

In March, Mr Justice Barker gave his landmark decision, adjourning the application to set aside registration of the British judgement (pending the result of the British appeal) and confirming that the "Mareva" injunction should stand (but that its terms could readily be amended).

On the first point, Hunt's counsel argued that there was no jurisdiction to register a judgement under the 1934 Act when neither the parties nor the subject of the litigation had any connection with New Zealand except for the unsuccessful defendant's ownership of some property here.

A similar argument had failed in the High Court of Australia (where BP(Libya) is pursuing Hunt's assets in various states).

Mr Justice Barker agreed with that court: the 1934 Act meant precisely what it said and Hunt was a debtor under a judgment of a superior court of a country (Britain) to which the Act applied.

The second and rather more significant point related to "Mareva" injunctions.

These take their name from a ship let on a time charter to a Spanish company in 1975. The charterers sub-charted the ship and proceeds were paid into their London bank account.

Soon after that the charterers wrongfully ceased payments due under the main charter. The shipowners applied for and were granted an injunction which prevented the charterers from removing or disposing out of England the funds in the London bank.

The Court of Appeal held that, notwithstanding earlier case law indicating that such injunctions were not available till a judgement had been obtained, jurisdiction for such injunctions existed in a statutory provision that "an injunction may be granted ... by an interlocutory order of the court in all cases in which it shall appear to the court to be just or convenient".

There is no identical statutory provision in New Zealand. But section 16 of our Judicature Act 1908 gives the Supreme (now High) Court "all judicial jurisdiction which may be necessary to administer the laws of New Zealand".

Mr Justice Barker ruled that this section authorises the issue of a "Mareva" injunction in New Zealand. (Interestingly, the same judge used the same section in finding jurisdiction to issue injunctions in defamation cases in New Zealand in the recent case involving *National Business Review*.)

In reaching that conclusion Mr Justice Barker rejected the approach taken in South Australia and New South Wales (but not in Victoria and Western Australia) that the recognition of a new jurisdiction to grant "Mareva" injunctions amounted to legislation by the courts and usurption of Parliament's functions.

As to whether a "Mareva" injunction ought to be issued against Hunt, Mr Justice Barker considered the question fairly evenly balanced but tipped in BP(Libya)'s favour by Hunt's failure to give an assurance that the judgment would be met if necessary.

An appeal has been lodged against Mr Justice Barker's decision (although it will not necessarily proceed).

The opinion of the Court of Appeal would clearly be of assistance. But the effects of a "Mareva" injunction – freezing the assets of a defendant prior to his being found liable – are so drastic that it would probably have been better had Parliament had a hand in their gestation.

Dept diverges on traffic backlog

by Rae Mazengarb

THE Justice Department, faced with a backlog of about 22,000 minor traffic cases in Wellington area, is taking steps to clear it.

Officials were unwilling to suggest any specific solution, but told *NBR* the department would be "looking at its resources" to see what staff could be made available to process the cases.

The problem is said to have become more acute in recent months because of a deliberate departmental policy to action those cases with priority and leave the minor traffic offences once filed to sit unactioned.

Department spokespeople strongly denied this.

Deputy Justice Secretary B J Cameron said there had been no request to stop processing, but minor traffic cases "may have been a lower priority".

Another senior official reiterated there had been no deliberate policy.

"As far as we are concerned we will have to look at it and take steps to remedy it," he said.

Asked if the department had the staff to clear the backlog, he said: "It's a matter of looking at our resources and then a decision would be made.

"We have a problem," he said, but emphasised there had been "no deliberate policy to curtail any activities as far as the courts are concerned".

Energy projects spark brain drain reversal

by Rae Mazengarb

THE energy projects planned for the 1980s are already sparking a reversal of the brain drain.

Since the announcement that Alberta Gas Chemical Ltd would build and run the country's first methanol plant in partnership with Petrocorp, both companies have been receiving inquiries from New Zealanders abroad.

Civil and chemical engineers and other highly qualified personnel – who have in the past been flocking to big overseas' companies – are expressing keen interest to return.

A delegation of senior executives, led by Alberta Gas president John LoPorto, was in New Zealand to discuss details of the 1200-tonne-day plant to be built at a cost of about $130 million at Tikorangi in Taranaki.

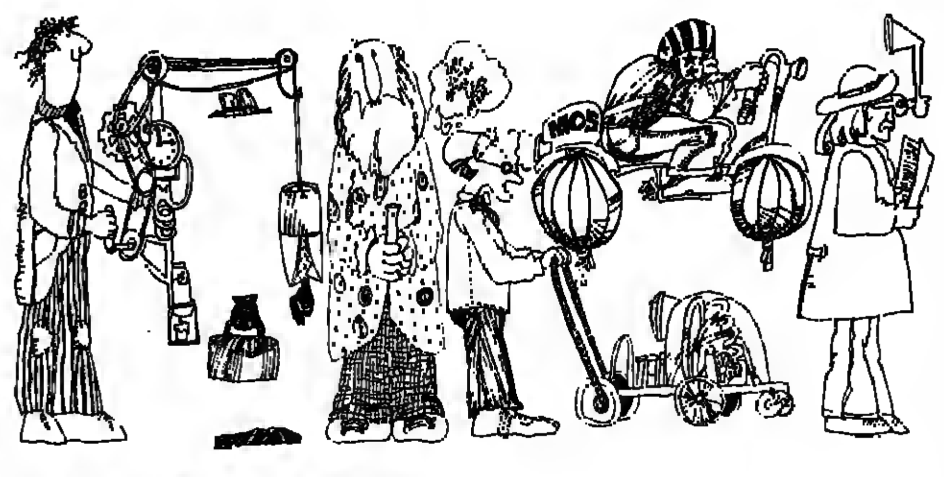
The construction period is expected to peak at around 550 jobs, while the plant will provide some 100 permanent jobs after the construction is finished, LoPorto said.

The vast majority of people working on the plant would be New Zealanders, he said.

Alberta Gas technical manager Ramesh Nagawaren told *NBR* that although the announcement had obviously not sparked as much interest in Canada as here, the company had received many calls from New Zealanders based in Canada.

They tended to be highly qualified technical people, he said.

Petrocorp, too, has received some 30 inquiries from "top professional" New Zealanders now working in Britain and Canada.



The highly qualified want to come back

It seems the changing fortunes overseas – including a wind-down in many technologies – is causing highly-skilled New Zealanders to think seriously about returning.

Many are now married with young families and factors such as education and family ties here are an added incentive, said a Petrocorp spokesman.

And it would obviously suit Alberta Gas to recruit New Zealand specialists in Canada and fly them back here after a short familiarisation period at the Canadian plants.

Some 60 further operating personnel will be taken over to Canada in groups of about 10 – throughout the construction period for training periods of between three and six months.

Throughout the oil industry itself New Zealanders – holding prominent positions overseas – have been returning gradually with the rekindling of on-shore exploration.

The trend is viewed optimistically against the high emigration figures of the past few years.

Department of Statistics' information shows the country had a net loss of -27,887 people in the 1979 April-December period.

Almost 3000 of those permanent or long-term departures were in the professional, technical and related occupational groups.

Petrocorp drilling on West Coast

PETROCORP Exploration will start drilling a new prospect near Greymouth this month.

Two holes are planned on the Kokiri structure located 15 miles East of Greymouth. The first hole to a depth of 2500 metres is expected to cost about $3 million.

The Kokiri target is a new structure, discovered two years ago by Petrocorp's contract seismic survey crew.

The West Coast has attracted a lot of interest from oil and gas explorers over the years. Sub-economic quantities of both oil and gas have been found in the past.

Two years ago Keith Collins Petroleums (Panama) Inc, and exploration company with worldwide interests, offered to explore the area on a sole risk basis at no cost to the tax payer.

Keith Collins offered to drill the Kumara and Kawhaka domes, lying South of Petrocorp's Kokiri structure, and pipe the gas (if found) to Hokitika and Greymouth at his own expense in return for 25 per cent of the find.

Petrocorp, was offered the deal on the grounds that Collins would be taking sole risk and only he would lose if the holes proved to be dry.

At that time Petrocorp was capitalised at $55 million representing $18.55 for each man, woman and child in the country.